

# Unconstrained Fixed Income Strategy

Portfolio and Economic Commentary – 2<sup>nd</sup> Quarter 2019





**UNCONSTRAINED FIXED INCOME STRATEGY COMMENTARY**

Based on our macroeconomic outlook over a three to five year period and our cyclical views from quarter to quarter, we employ top-down strategies that focus on yield curve positioning, volatility, and sector rotation. We then utilize bottom-up analysis to drive our security selection process and facilitate the identification of undervalued securities with the potential for above average income. We invest in securities that operate across diversified sectors in the fixed income markets of the United States, primarily those in U.S. dollar denominated high yield and investment grade bonds,

including government securities, corporate bonds, and mortgage- and asset-backed. Sources of added value:

**Credit Analysis** - We emphasize independent analysis and do not rely on credit agencies.

**Duration Risk** - We avoid long, extreme duration shifts generally operating within a moderate duration range typically between two and four years.

**High Income** - Our research attempts to identify issues paying above average income.

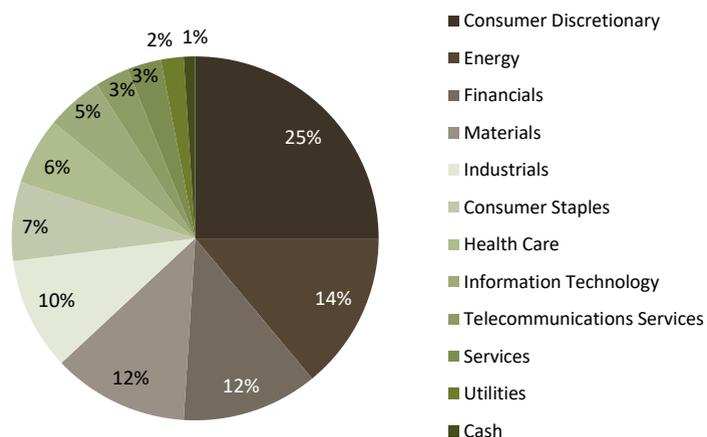
**Risk Premium Management** - We seek to attain an attractive yield/spread in relation to a five-year treasury within acceptable levels of portfolio risk.

**PERFORMANCE COMMENTARY**

In its June meeting the Federal Reserve left rates unchanged keeping its benchmark interest rate within a target range of 2.25% to 2.50%. Despite inflation remaining near the FOMC's 2.0% target level and citing sustained expansionary economic activity and strong labor market conditions, the Fed expressed an increasing level of uncertainty on the continuing strength and stability of the US economy signaling the growing likelihood of instituting a rate cut in the coming months. The yield curve, which began the quarter modestly inverted, increased its inversion on the short end with the 10-year note contracting approximately 40 bps over the quarter to a level of just 2.0%, 12 bps lower than 3-month T-bills. Investment grade corporate bonds performed the best in the broad based US fixed income market during the quarter returning 4.5% followed by Treasuries and Agencies which each generated returns of approximately 3.0%.

The Unconstrained Fixed Income strategy returned 1.28%, gross of fees, in the second quarter of 2019 lagging the Barclays US Aggregate Bond and ICE BofAML US High Yield indices by 180 bps and 188 bps respectively. Year-to-date the Unconstrained Fixed Income strategy is up 6.66%, gross of fees, outpacing the Barclays US Aggregate Bond index by 55 bps, while continuing to trail the greater high yield corporate bond market with the ICE BofAML US High Yield index up 10.16% through the first two quarters of 2019.

**Sector Allocation**



**Top Ten Holdings**

**Weight**

Tempur Sealy Int'l Inc. 5.625%	1.33%
CenturyLink, Inc. 6.750%	1.31%
Oppenheimer Hldgs Inc. 6.750%	1.30%
TreeHouse Foods, Inc. 4.875%	1.27%
Sonic Automotive, Inc. 5.000%	1.27%
Quad/Graphics Inc. 7.000%	1.26%
Suburban Propane Partners 5.500%	1.25%
Avis Budget Car Rental 5.500%	1.24%
Coeur Mining Inc. 5.875%	1.23%
Ingles Markets, Inc. 5.750%	1.23%



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