

Unconstrained Fixed Income Strategy

Portfolio and Economic Commentary – 1st 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.

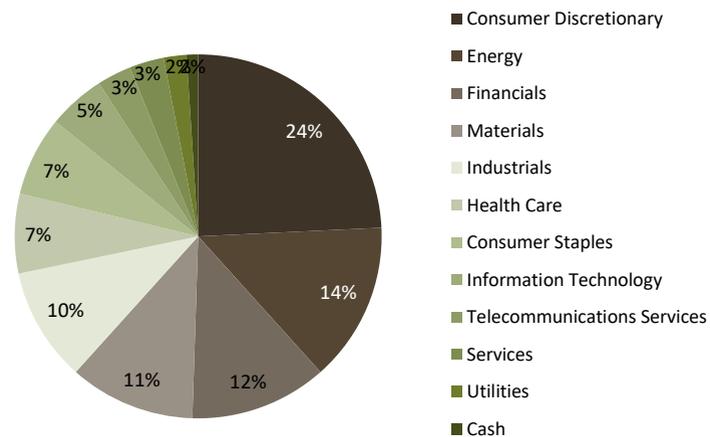
Risk Premium Management - We seek to attain an attractive yield/spread in relation to a five-year treasury within acceptable levels of portfolio risk.

PERFORMANCE COMMENTARY

In early January the Fed began exhibiting a more dovish tone signaling a moderation on further tightening efforts likely occurring in 2019 spurring investor demand for higher yielding assets. As a result, investment grade corporate and high yield bonds were the two best performing segments in the broad based US fixed income markets returning 5.34% and 7.40% respectively, while 90-day T-bills were the worst performing increasing only 0.59%. The US 10-year Treasury note, which began the year at 2.66 contracted 25 bps by the end of the quarter, inverting the yield curve in the final weeks of March when the yield on the 10-year dropped below yields on 1 to 6-month T-bills and the 1-year Treasury note.

The Unconstrained Fixed Income strategy returned 5.31%, gross of fees, in the first quarter of 2019 outpacing the Barclays US Aggregate Bond index by 237 bps, but lagging the ICE BofAML US High Yield index by 209 bps. The strategy's greater exposure to higher rated non-investment grade corporate bonds (~69% rated B+ or better) resulted in the strategy lagging the greater high yield bond market as lower rated B and CCC credits produced the best returns in the quarter. However, the strategy did benefit from its +14% exposure to the energy sector as rising crude oil prices increased demand for issuers in the sector. Even after a strong first quarter, we still see the potential for at least reasonable returns going forward in the intermediate to long-term.

Sector Allocation



Top Ten Holdings

Weight

Tempur Sealy Int'l Inc. 5.625%	1.32%
TreeHouse Foods, Inc. 4.875%	1.29%
CenturyLink, Inc. 6.750%	1.28%
Oppenheimer Hldgs Inc. 6.750%	1.28%
Ingles Markets, Inc. 5.750%	1.25%
Coeur Mining Inc. 5.875%	1.25%
Infor (US), Inc. 6.500%	1.25%
Avis Budget Car Rental 5.500%	1.25%
Quad/Graphics Inc. 7.000%	1.25%
The ADT Corporation 6.250%	1.23%



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