

# Unconstrained Fixed Income Strategy

Portfolio and Economic Commentary – 3<sup>rd</sup> Quarter 2023





## 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.

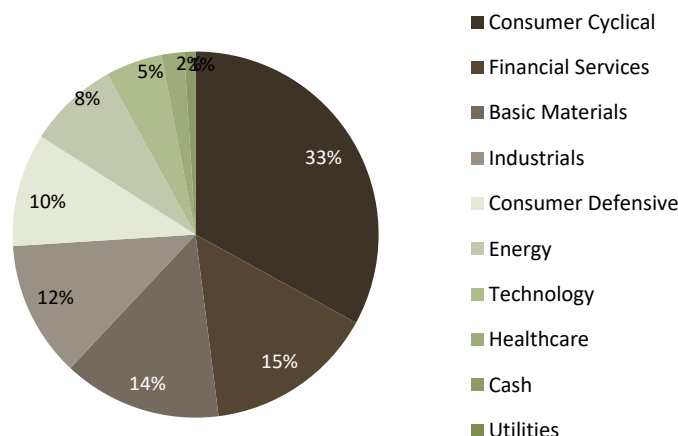
**Risk Premium Management** - We seek to attain an attractive yield/spread in relation to a five-year treasury within acceptable levels of portfolio risk.

## PERFORMANCE COMMENTARY

The Unconstrained Fixed Income strategy continued to add to its gains from the first half of the year, posting a gross return of +1.54% for the third quarter of 2023, raising the YTD performance to +5.17% gross of fees. After lagging the aggregate high yield corporate bond market for the first two quarters of the year, the Unconstrained Fixed Income strategy reversed that trend in Q3 outpacing the iShares iBoxx \$ High Yield Bond ETF by 137 bps over the quarter and now stands above said ETF index by 27 bps YTD. The Unconstrained Fixed Income strategy continued to soundly outperform the iShares Core US Aggregate Bond ETF which declined -3.22% during Q3 pushing its YTD performance down to -1.03% through the end of September.

Despite the Fed electing to hold its benchmark interest rate unchanged at 5.00%-5.25% in September, Fed Chair Jerome Powell bluntly stated that at least one additional rate hike was likely to be instituted before year end and that rates were likely to remain at current 'elevated' levels for the foreseeable future, citing a strong job market with unemployment remaining historically low at around 3.7% and persistent albeit moderating inflationary pressures still percolating throughout the domestic US economy. The Fed's posturing and forecasting of a sustained and elevated interest rate environment rattled the fixed income markets in the closing weeks of the quarter sending the 10yr US Treasury yield to around 4.60%, an +80 bps increase from the start of the quarter leading to a broad sell-off of long duration assets.

## Sector Allocation (Morningstar)



## Top Ten Holdings

## Weight

Delek Logistics Partners 6.750%	3.00%
Signet UK Finance PLC 4.700%	2.95%
Titan International Inc 7.000%	2.85%
Hecla Mining Co 7.250%	2.76%
Mercer International Inc 5.500%	2.72%
Beazer Homes USA Inc 5.875%	2.67%
Macys Retail Holdings Inc 6.790%	2.64%
Griffon Corp 5.750%	2.59%
Credit Acceptance Corp 6.625%	2.58%
Wendy's International Inc 7.000%	2.50%



## DISCLOSURES

This report includes candid statements and observations regarding investment strategies, individual securities, and economic and market conditions; however, there is no guarantee that these statements, opinions or forecasts will prove to be correct. These comments may also include the expression of opinions that are speculative in nature and should not be relied on as statements of fact. Altrius is committed to communicating with our investment partners as candidly as possible because we believe our investors benefit from understanding our investment philosophy and approach. Our views and opinions include “forward-looking statements” which may or may not be accurate over the long term. Forward-looking statements can be identified by words like “believe,” “expect,” “anticipate,” or similar expressions. You should not place undue reliance on forward-looking statements, which are current as of the date of this report. We disclaim any obligation to update or alter any forward-looking statements, whether as a result of new information, future events or otherwise. While we believe we have a reasonable basis for our appraisals and we have confidence in our opinions, actual results may differ materially from those we anticipate.

**Past performance does not guarantee future results. The information provided in this material should not be considered an offer nor a recommendation to buy, sell or hold any particular security.**

### Performance Reporting

Altrius Capital Management, Inc. (Altrius) claims compliance with the Global Investment Performance Standards (GIPS®) and has prepared and presented this report in compliance with the GIPS® standards. Altrius has been independently verified for the periods January 31, 2001 – December 31, 2022 by ACA Performance Service, LLC. The verification reports are available upon request. A firm that claims compliance with the GIPS® standards must establish policies and procedures for complying with all the applicable requirements of the GIPS® standards. Verification provides assurance on whether the firm’s policies and procedures related to composite and pooled fund maintenance, as well as the calculation, presentation, and distribution of performance, have been designed in compliance with the GIPS® standards and have been implemented on a firm-wide basis. Verification does not ensure the accuracy of any specific composite presentation. GIPS® is a registered trademark of the CFA Institute. CFA Institute does not endorse or promote this organization, nor does it warrant the accuracy or quality of the content contained herein.

The Firm is defined as Altrius Capital Management, Inc. (Altrius), a registered investment advisor with the Securities and Exchange Commission. Altrius was founded in 1997 and manages equity, fixed income and balanced portfolios for high net worth individuals and families.

### Composite Characteristics

The Unconstrained Fixed Income Strategy is a subaccount from the Altrius Global Income, Conservative, Equity Tilted, Defensive and Equity Only Composites. Prior to 01/01/2022, it was only a subaccount of the Global Income Composite. The composite and subaccount were created in December 2010 with a performance inception date of December 31, 2002. The subaccount strategy is primarily invested in U.S. dollar-denominated investment grade and high yield bonds, including government securities, corporate bonds, and mortgage and asset-backed securities diversified across sectors. The strategy seeks to attain an attractive yield/spread relative to a five year Treasury within acceptable levels of portfolio risk.

Accounts are included on the last day of the month in which the account meets the composite definition. Accounts no longer under management are withdrawn from the composite on the first day of the month in which they are no longer under management. Closed account data is included in the composite as mandated by the standards in order to eliminate a survivorship bias.



## DISCLOSURES

### Benchmark

The benchmarks are the iShares® iBoxx \$ High Yield Corporate Bond Fund ETF (HYG) and the iShares® Core US Aggregate Bond ETF (AGG). The HYG ETF tracks the investment results of the Markit iBoxx US Liquid High Yield Index which is a rules based index consisting of US dollar-denominated high yield corporate bonds for sales in US and the AGG ETF measures the performance of the total US investment grade bond market. The ETF returns are before the deductions of all expenses and transaction costs incurred by the ETF and net of withholding taxes. The ETF return is the total return based off net asset values and distributions from all the funds. As of 12/31/2022, the expense ratio was 0.03% for the AGG ETF and 0.48% for the HYG ETF. It was changed 03/31/2022 from the Morningstar US High Yield and Morningstar US Core Bond indexes retroactively due to licensing fees charged by the owners. These benchmarks replaced the Barclays Capital Aggregate Bond Index and the Bank of America US High Yield Master II Trust as of 11/01/2019. and were changed retroactively for all periods The change was made due to licensing fees being charge by owners of the indices. Effective 01/01/2017, the Bank of America US High Yield Master Trust Index replaced the Barclays BB+ index. The volatility of the indices may be materially different from that of the performance composite. In addition, the composite's holdings may differ significantly from the securities that comprise the indices. The indices have not been selected to represent appropriate benchmarks to compare the composite's performance, but rather are disclosed to allow for comparison of the composite's performance to those of well-known and widely recognized indices.

Economic factors, market conditions, and investment strategies will affect the performance of any portfolio, and there are no assurances that it will match or outperform any particular benchmark.

### Altrius Unconstrained Fixed Income Composite Performance

*December 31, 2012– December 31, 2022*

Year	Gross Return %	Net Return %	Benchmark Return %	Composite 3-Yr St Dev %	Benchmark 3Yr St Dev %	# of Portfolios	Composite Dispersion %	Total Composite Assets	Percent of Firm Assets
2013	8.61	7.40	5.90	4.60	7.39	117	1.02	36,477,267	21.14
2014	(4.04)	(5.11)	2.01	4.69	5.00	128	0.71	45,562,659	24.07
2015	(10.55)	(11.56)	(5.55)	6.19	5.70	114	1.06	34,421,355	18.75
2016	22.06	20.68	13.93	7.91	5.94	137	2.39	59,949,560	22.43
2017	5.51	4.35	6.09	7.29	5.41	147	1.00	60,383,355	17.72
2018	(0.14)	(1.24)	(1.92)	5.70	4.13	154	0.32	73,471,882	22.14
2019	10.39	9.21	14.25	3.11	4.20	152	0.91	79,944,999	23.49
2020	(0.49)	(1.50)	4.11	10.25	8.64	131	0.90	52,534,859	14.62
2021	8.72	7.69	4.12	13.95	8.44	176	0.33	56,513,246	13.13
2022	-9.25	-10.13	-11.37	10.98	10.92	222	0.57	77,278,615	17.78



## DISCLOSURES

### Performance Calculations

Valuations and returns are computed and stated in U.S. dollars. Results reflect the reinvestment of dividends and other earnings.

Gross of fees return is net of transaction costs and gross of management and custodian fees. Net of fees returns are calculated using actual management fees that were paid and are presented before custodial fees and but after management fees and all trading expenses. Returns can be net or gross of withholding taxes, depending on how taxes are recorded at the custodian. Some accounts pay fees outside of their accounts; thus, we enter a non-cash transaction in the performance system such that we can calculate a net of fees return. Prior to 01/01/10, cash was allocated to carve-out segments on a pro-rata basis based on beginning of period market values. Beginning 01/01/10, carve-out segments are managed separately with their own cash balance. Carve-out accounts represent 100% of composite assets for periods prior to 01/01/10.

The standard management fee for the Altrius Unconstrained Fixed Income Strategy is 1.40% per annum on the first \$500,000 USD, 1.00% per annum on the next \$500,000 and 0.80% per annum thereafter. Additional information regarding Altrius Capital Management fees are included in its Part II Form ADV.

Internal dispersion is calculated using gross of fee performance numbers using the asset-weighted standard deviation of all accounts included in the composite for the entire year; it is not presented for periods less than one year or when there were five or fewer portfolios in the composite for the entire year. The three-year annualized standard deviation measures the variability of the composite and the benchmark (Morningstar US Core Bond) returns over the preceding 36-month period.

Policies for valuing investments, calculating performance, and preparing GIPS® compliant reports are available upon request. A complete list and description of firm composites is available upon request.

\*Top Holding Statistics are presented as supplemental information to the GIPS® compliant presentation.

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