

# Unconstrained Fixed Income Strategy

Portfolio and Economic Commentary – 4<sup>th</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.

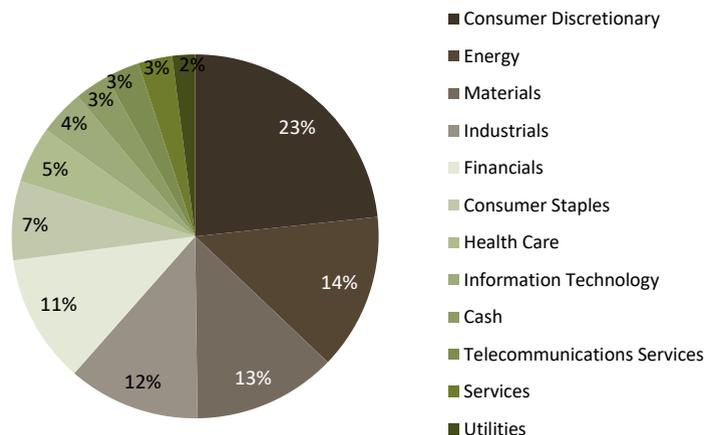
**Risk Premium Management** - We seek to attain an attractive yield/spread in relation to a five-year treasury within acceptable levels of portfolio risk.

**PERFORMANCE COMMENTARY**

The Federal Reserve cut rates by 25 bps in its October meeting, marking the third cut instituted in 2019, and driving its benchmark funds rate down to a range of 1.5% to 1.75%. Following the perceived bottoming of economic data and global growth expectations, investor optimism and market demand for riskier assets only grew in force and fervor during the fourth quarter of 2019. The yield curve, which first inverted back in March, began to reverse course in mid-October and continued to steepen throughout the remaining two months of 2019 with the differential on 3-month T-bills vs 10-year Treasuries flipping from -17 bps at the beginning of the fourth quarter to +37 bps by year-end. As a result of contracting interest rates during the year, 30-year Treasuries were the best performing segment of the broad based US fixed income markets returning 16.43% in 2019, followed by investment grade corporate bonds at 14.54%, while aggregate US Treasuries were the worst losing 0.79%.

The Unconstrained Fixed Income strategy returned 2.17%, gross of fees, in the fourth quarter of 2019 outpacing the Morningstar US Core Bond index by 199 bps, but lagging the Morningstar US High Yield index by 39 bps. For 2019, the Unconstrained Fixed Income strategy returned 10.39%, gross of fees, finishing the year well ahead of the Morningstar US Core Bond index's 8.65% return, yet the strategy continued to trail the greater high yield corporate bond market with the Morningstar US High Yield index posting a return of 14.20% for 2019.

**Sector Allocation**



**Top Ten Holdings**

**Weight**

CenturyLink, Inc. 6.750%	1.40%
Tenet Healthcare Corp. 6.750%	1.37%
Pitney Bowes Inc. 4.700%	1.36%
Suburban Propane Partners 5.500%	1.34%
Tempur Sealy International 5.625%	1.34%
Coeur Mining Inc. 5.875%	1.31%
Oppenheimer Holdings Inc. 6.750%	1.29%
Clearwater Paper Corp. 4.500%	1.28%
Bed Bath & Beyond Inc. 3.749%	1.27%
U.S. Concrete Inc. 6.375%	1.27%



## 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, 2018 by ACA Performance Service, LLC. The verification reports are available upon request. Verification assesses whether (1) the firm has complied with all the composite construction requirements of the GIPS standards on a firm-wide basis and (2) the firm’s policies and procedures are designed to calculate and present performance in compliance with the GIPS standards. Verification does not ensure the accuracy of any specific composite presentation.

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 Composite. A complete list and description of firm composites is available upon request. 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 Morningstar US Core Bond and the Morningstar US High Yield. These benchmarks replaced the Barclays Capital Aggregate Bond Index, the Bank of America US High Yield Master II Trust, and the Morningstar US OE Nontraditional Bond Index as of 11/01/2019. 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.

### **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 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.

There are no non-fee paying accounts in our composites. When a security is purchased or sold, the principal amounts tied to the transaction are net of trading costs; therefore the calculation and market values represent amounts net of trading costs. Dispersion is calculated using asset-weighted standard deviation, gross of fees. Policies for valuing portfolios, calculating performance, and preparing compliant presentations are available upon request. A complete list and description of firm composites is available upon request.