

# Global Income Strategy

Portfolio and Economic Commentary – 3<sup>rd</sup> Quarter 2020





**GLOBAL INCOME STRATEGY COMMENTARY**

Our investment philosophy is predicated on a time-tested, three pronged approach providing solid risk adjusted returns to our investors for over two decades.

- We believe in the importance of getting paid immediately for the risks which are taken and focus on businesses which compensate our clients with **dividends and above average interest**. We believe this income stream, coupled with capital appreciation, is a vital aspect of total return.

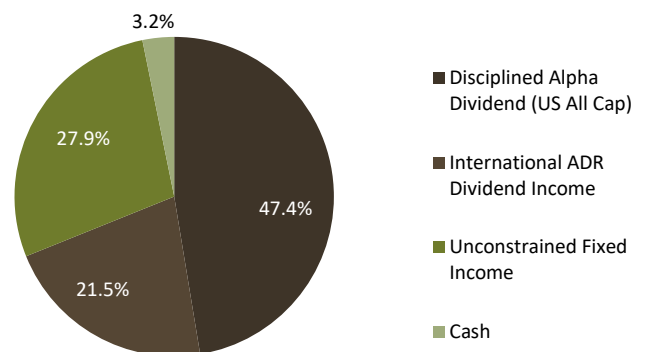
- We dig deep for **value** often viewing crisis as an opportunity. We believe that fundamental research and patience are critical to long term success and that over time, the price of a company will rise to reflect the value of the underlying firm viewing each purchase as if were buying a piece of a business – not simply a stock certificate.
- We believe that **global revenue generation** is a key component to growth and sustainability and invest in companies with global growth opportunities. We are unafraid to take contrarian positions, but remain diligent about the risks of a global economy.

**PERFORMANCE COMMENTARY**

The Global Income strategy gained 5.82% during the third quarter of 2020 versus a return of 5.76% for the Morningstar Global Allocation Total Return index. The annualized trailing returns for the strategy since our inception on January 1, 2003 are 6.38% versus 7.79% for the Morningstar Global Allocation Total Return index. The twelve month trailing yield for the Global Income strategy stands at 4.74% versus 1.72% for the Morningstar Global Allocation Total Return index.

Our focus remains on emphasizing the importance of immediate income to our investors particularly in this volatile, low interest rate environment, which we believe will persist for longer than most economists. We continue to look for value and global growth potential adding to our equity exposure opportunistically. Though we believe the broader market indices are overvalued having been moved by momentum stocks in the growth driven tech sector, we assert that valuations are reasonable for our issues and opportunities remain. In the fixed income sector, our emphasis remains on high yield bonds, which we believe more adequately compensates our investors, while providing better protection in an eventually, albeit slowly, rising interest rate environment when a recovery occurs. The following is an analysis of the independent strategies which comprise our flagship Global Income strategy in percentages indicated above.

**Sector Allocation**



**Top Five Equity Holdings**

Top Five Equity Holdings	Weight
Hanesbrands	1.46%
Taiwan Semiconductor Manufacturing	1.38%
Proctor & Gamble	1.30%
Dow	1.28%
AstraZeneca	1.26%

**Top Five Fixed Income Holdings**

Top Five Fixed Income Holdings	Weight
Wendy's International 7.00%	0.82%
Mercer International 5.50%	0.70%
Pitney Bowes 4.7%	0.67%
Suburban Propane Partners LP 5.50%	0.65%
U.S. Concrete 6.38%	0.64%



**DISCIPLINED ALPHA DIVIDEND STRATEGY COMMENTARY**

As value investors, we constantly focus on our duty to protect the principal of our investments even as we look for ways to grow them over time as well. As economists, we remain alert to trends taking place in the larger global economy. As analysts, we seek to invest in securities priced with a margin of safety in order to account for their near term volatility and our uncertainty about what the future holds. With this in mind, we look for opportunities in three specific categories: classic value, persistent earners, and distressed or contrarian.

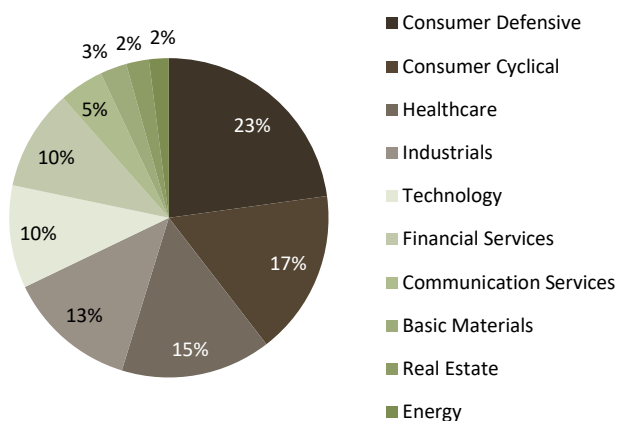
Classic value stocks sell at attractive valuations and provide above-average dividend yields and growth. Persistent earners are companies which have steady and predictable earnings and that are selling below their historic valuation. The distressed/contrarian category refers to stocks that are out of favor due to what we perceive to be temporary factors and are likely to appreciate substantially as the temporarily distressing factor recedes. Typically the distressed category is the smallest in the portfolio.

**PERFORMANCE COMMENTARY**

The Disciplined Alpha Dividend strategy rose 7.11% during the third quarter of 2020 outpacing the Morningstar US Value index which gained 3.28%. The strategy has produced alpha and sound risk adjusted returns besting the Morningstar US Value index and its large value peer group for the past 1-year, 3-year, 5-year, 10-year, 15-year, and since inception periods. The trailing annualized ten year returns were 11.39% for the strategy and 9.23% for the Morningstar US Value index. Since inception on January 1, 2003, the strategy has returned 8.83% versus 7.90% for the Morningstar US Value index.

We have added alpha and garnered sound absolute and relative returns for our investors focusing on undervalued issues offering above average dividend yields and global growth potential. The sectors which contributed the most during the third quarter of 2020 came from the consumer defensive, technology, consumer cyclical and basic materials sectors while the energy and health care sectors contributed the least during the rally. The top performers for the quarter were Hanesbrands (40.8%), Qualcomm (30.4%), Apple (26.0%), Norfolk Southern (22.4%), McDonald's (19.7%) and Caterpillar (18.8%). The bottom performers for the quarter were Exxon Mobil (-20.9%), Cisco Systems (-14.9%), Walgreens Boots Alliance (-14.2%), Intel (-12.9%) and Cardinal Health (-11.1%).

**Sector Allocation (Morningstar)**



**Top Ten Holdings**

**Weight**

Hanesbrands	3.04%
Procter & Gamble	2.72%
Dow	2.68%
Norfolk Southern	2.61%
Kimberly-Clark	2.55%
The Home Depot	2.44%
PepsiCo	2.42%
Merck & Co.	2.39%
Archer-Daniels Midland	2.32%
Verizon Communications	2.31%



**DISCIPLINED ALPHA DIVIDEND STRATEGY COMMENTARY**

As one may recognize from the below chart, our firm has consistently provided a steady stream of income to our clients in the form of dividends. It is our assertion that this income stream has not only reduced the risk of our portfolio, but also provided a large part of the total return thereby leading to our performance success over this past tumultuous decade plus.

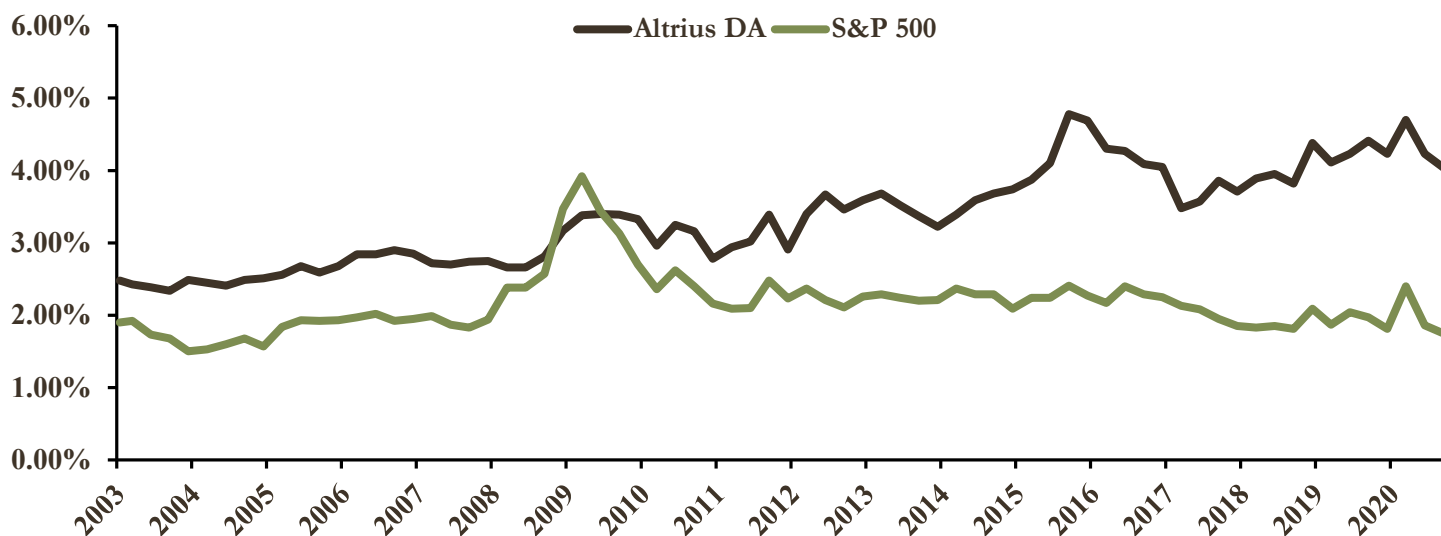
We believe that dividends allow our investors to “get paid to wait” while patiently working through volatile business and market cycles. This strategy provides emotional support during difficult cycles and enables investors to weather turbulent periods by utilizing dividend income for personal needs or to reinvest cash at lower valuations. Our strategy is not only grounded in psychological and behavioral finance concepts, but is also supported by empirical evidence outperforming in both negative and full market cycles.

Dividends also act to align the interests of corporations and shareholders in helping to eliminate the agency effect. Corporate boards have recognized the value of dividends in stabilizing their stock prices and encouraging investment during both high and lower tax regimes. In supporting and increasing dividends over time, managers are compelled to maintain a reliable stream of cash flows to shareholders rather than waste capital on those expenses adding little to corporate revenue including executive perks, pet projects, and ill-timed, unwise acquisitions. It appears a paradox; however, our experience and academic studies have displayed that sufficient investment for a good business can still occur in conjunction with dividends as managers are forced to invest cash flow more prudently and only in those capital investments in which they have the highest conviction in adding to corporate revenue, particularly since stock buybacks are often ill-timed.

**ALTRIUS: A STORY OF CONSISTENT DIVIDENDS OVER THE YEARS**

The strategy has consistently delivered an above average dividend yield versus the S&P 500 since its inception.

**Altrius Disciplined Alpha Dividend Income vs. S&P 500 Dividend Yield**



Source: Morningstar



**INTERNATIONAL ADR DIVIDEND INCOME STRATEGY COMMENTARY**

As value investors, we constantly focus on our duty to protect the principal of our investments even as we look for ways to grow them over time as well. As economists, we remain alert to trends taking place in the larger global economy. As analysts, we seek to invest in securities priced with a margin of safety in order to account for their near term volatility and our uncertainty about what the future holds. With this in mind, we look for opportunities in three specific categories: classic value, persistent earners, and distressed or contrarian.

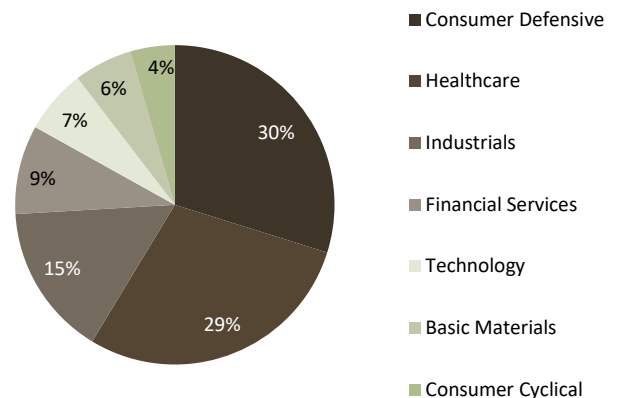
Classic value stocks sell at attractive valuations and provide above-average dividend yields and growth. Persistent earners are companies which have steady and predictable earnings and that are selling below their historic valuation. The distressed/contrarian category refers to stocks that are out of favor due to what we perceive to be temporary factors and are likely to appreciate substantially as the temporarily distressing factor recedes. Typically the distressed category is the smallest in the portfolio.

**PERFORMANCE COMMENTARY**

The International ADR Dividend Income strategy gained 4.95% during the third quarter of 2020 outpacing the MSCI EAFE Value index which was higher by 1.19%. The strategy has produced alpha and sound risk adjusted returns besting the MSCI EAFE Value index for the past 1-year, 3-year, 5-year, 10-year and since inception periods. Since its inception on June 1, 2010, the strategy has produced annualized returns of 3.96% versus 3.33% for the MSCI EAFE Value index generating its superior risk adjusted returns with significantly lower beta.

We have added alpha and garnered sound absolute and relative returns for our investors focusing on undervalued issues offering above average dividend yields with global growth potential. The sectors which contributed the most during the rally of the third quarter of 2020 came from the technology, industrials, consumer defensive and basic materials sectors while the sectors which detracted from performance were the healthcare and financial services sectors. The top performers for the quarter were Taiwan Semiconductor (43.5%), Siemens (18.1%), Eaton Corp (17.5%), Unilever (14.2%) and Anheuser Busch (10.1%) while the bottom performers were Bayer (-19.6%), Glaxo SmithKline (-6.8%), Prudential (-5.5%), British American Tobacco (-4.9%) and Danone (-3.8%).

**Sector Allocation (Morningstar)**



**Top Ten Holdings**

**Weight**

Taiwan Semiconductor	6.37%
AstraZeneca	5.79%
LyondellBasell Industries	5.78%
Siemens	5.68%
Anheuser-Busch InBev	5.40%
Nestle	5.17%
Unilever	5.07%
Eaton Corp	4.96%
Sanofi	4.76%
Diageo	4.61%



**INTERNATIONAL ADR DIVIDEND INCOME STRATEGY COMMENTARY**

As one may recognize from the below chart, our firm has consistently provided a steady stream of income to our clients in the form of dividends. It is our assertion that this income stream has not only reduced the risk of our portfolio, but also provided a large part of the total return thereby leading to our performance success over this past tumultuous decade plus.

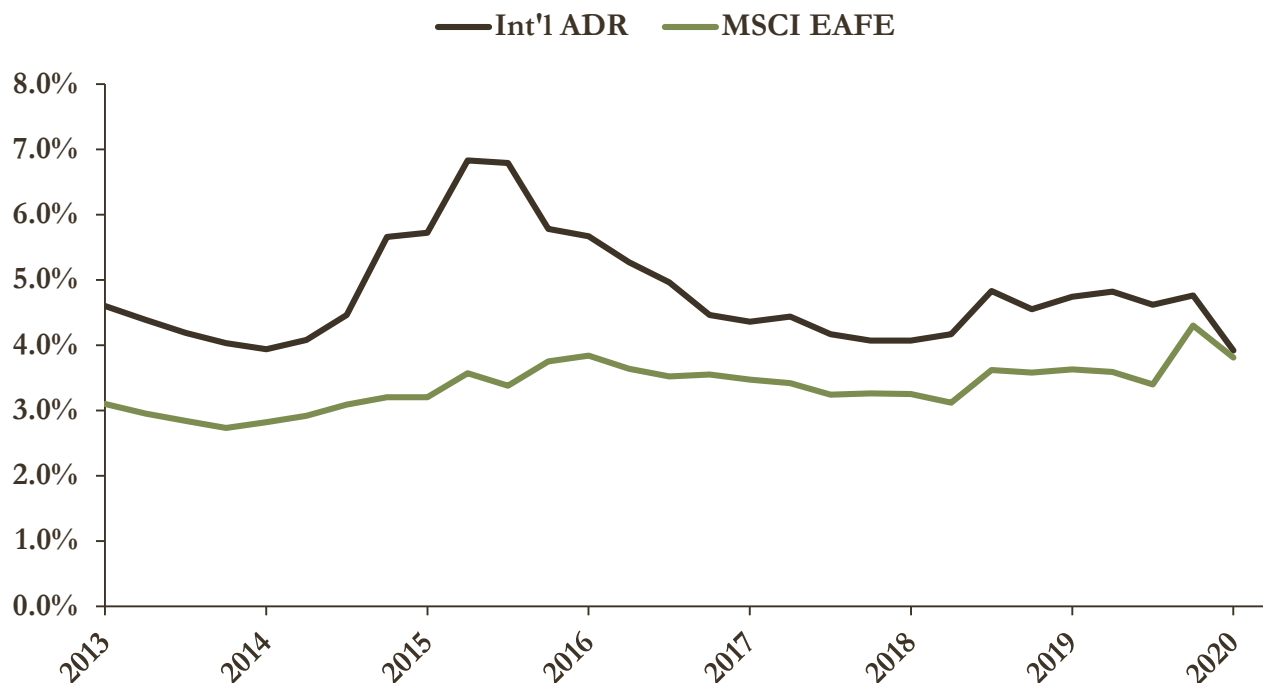
We believe that dividends allow our investors to “get paid to wait” while patiently working through volatile business and market cycles. This strategy provides emotional support during difficult cycles and enables investors to weather turbulent periods by utilizing dividend income for personal needs or to reinvest cash at lower valuations. Our strategy is not only grounded in psychological and behavioral finance concepts, but is also supported by empirical evidence outperforming in both negative and full market cycles.

Dividends also act to align the interests of corporations and shareholders in helping to eliminate the agency effect. Corporate boards have recognized the value of dividends in stabilizing their stock prices and encouraging investment during both high and lower tax regimes. In supporting and increasing dividends over time, managers are compelled to maintain a reliable stream of cash flows to shareholders rather than waste capital on those expenses adding little to corporate revenue including executive perks, pet projects, and ill-timed, unwise acquisitions. It appears a paradox; however, our experience and academic studies have displayed that sufficient investment for a good business can still occur in conjunction with dividends as managers are forced to invest cash flow more prudently and only in those capital investments in which they have the highest conviction in adding to corporate revenue, particularly since stock buybacks are often ill-timed.

**ALTRIUS: A STORY OF CONSISTENT DIVIDENDS OVER THE YEARS**

The strategy has consistently delivered a higher dividend yield than the MSCI EAFE index since its inception.

**International ADR Dividend Income vs. MSCI EAFE Dividend Yield**





**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.

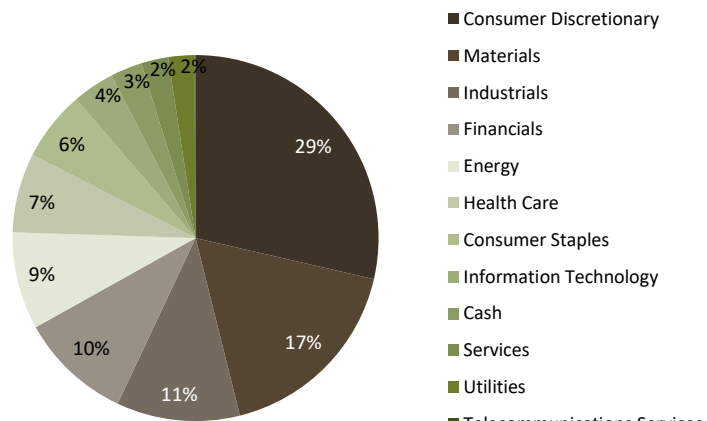
**Risk Premium Management** - We seek to attain an attractive yield/spread in relation to a five-year treasury within acceptable levels of portfolio risk.

**PERFORMANCE COMMENTARY**

All major segments of the broad based US fixed income market posted gains for the third quarter of 2020. Coming off of a resurgent second quarter, investor demand for risk-assets increased driving corporate bond prices higher, resulting in their continued outperformance of all other fixed income market segments since their lows back in late March. High yield corporate bonds were the best performing segment gaining approximately 4.75% in Q3, outpacing their investment grade counterparts by over 250 bps. In fact, the lowest rated high yield bonds, issues with credit ratings of ‘CCC’ or lower, were a large contributor to high yield’s strong results for the quarter, with the sub-segment returning approximately 7.68% in Q3. Shorter dated Treasuries and mortgage-backed securities were the two worst performing segments on the quarter, returning approximately 0.13% and 0.10% respectively.

Having already cut interest rates to near zero at the onset of the pandemic back in March, the Fed in its September meeting further entrenched its dedication to accommodative fiscal policy, declaring that it fully intends to keep its benchmark rate at between 0.0% - 0.25% until at least 2023. Of note and prior to the September meeting, the Federal Open Market Committee in August announced that inflation would be allowed to run “moderately” above its long running goal of 2%, without a change in interest rates to provide further support to the labor market and broader economy as the recovery continues to take shape. Given that

**Sector Allocation**



**Top Ten Holdings**

**Weight**

Wendy’s International Inc. 7.000%	2.84%
Mercer Int’l Inc. 5.500%	2.44%
Pitney Bowes Inc. 4.700%	2.31%
Suburban Propane Partners 5.500%	2.27%
U.S. Concrete, Inc. 6.375%	2.23%
Coeur Mining Inc. 5.875%	2.18%
Park-Ohio Industries Inc. 6.625%	2.10%
Cleveland-Cliffs Inc. 5.750%	2.06%
The Chemours Company 6.6255%	2.05%
Icahn Enterprises LP 6.250%	2.03%

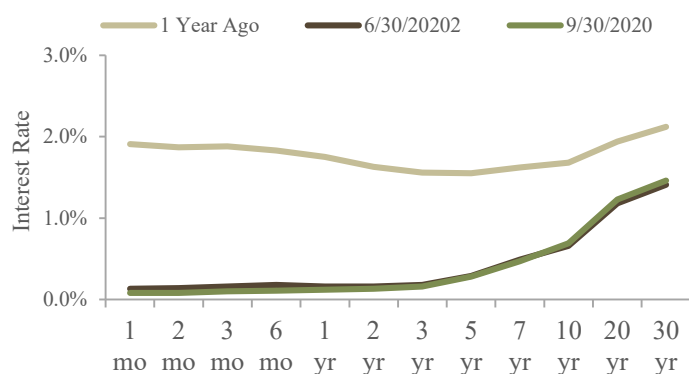




## UNCONSTRAINED FIXED INCOME STRATEGY COMMENTARY

there was little doubt or question in the market as to the Fed's actions during the third quarter, there was essentially no change at all to the shape or position of the yield curve.

US TREASURY YIELD CURVE



The Unconstrained Fixed Income strategy generated a return of 5.03%, gross of fees, for the third quarter of 2020, outpacing both the Morningstar US High Yield Bond and Morningstar US Core Bond indices by 28 bps and 440 bps respectively. However, the Unconstrained Fixed Income strategy remains down 6.70% year-to-date, while the Morningstar US High Yield Bond index returned to positive territory on the year closing out September up 0.62% year-to-date. Despite its relatively modest return of 0.63% generated during the third quarter, the Morningstar US Core Bond index added to its gains on the year and is currently up 6.78% through the nine months ended on September 30<sup>th</sup>, 2020.

The weight of the first quarter's results following the immediate impact of the COVID-19 pandemic on the global economy in March continues to weigh down the performance of the Unconstrained Fixed Income strategy relative to both the Morningstar US Core and High Yield Bond indices. Our 'tactical divestment' actions in selling off first a large portion of the strategy's exposure to the energy sector back in March, followed by a select number of issues predominantly in

the consumer discretionary sector over the prior six months at distressed levels, locked in losses for the strategy that have previously and will continue to be a drag on performance. It was at the time of sale, and continues to remain our belief that selling at the levels we did was the most prudent and conservative action in order to preserve as much of the strategy's invested assets as possible and mitigate further losses, rather than continuing to hold a large portion of the strategy's assets at distressed levels (below 80% of par value) with the prospects for price recovery appearing meager both then and now. Through the combination of the aforementioned selling of at risk issues within the strategy, as well the strong recovery and price appreciation of a large portion of existing holdings, the aggregate percentage of assets in 'distress' based on prevailing market values within the strategy was reduced by approximately 15% from a high of roughly 22.5% at the end of Q1 down to 7.6% as of the close of Q3.

No major changes occurred during the quarter in regard to the strategy's aggregate asset composition and credit characteristics. Consumer discretionary remains the strategy's most heavily weighted sector at approximately 29% of all invested assets, which increased by roughly 3% during the quarter as a result of strong price recoveries of a number of issues, followed by the materials and industrials sectors at 17% and 11% respectively. Most of the strategy's remaining energy issues also experienced swift recoveries to the upside as a result of increased call activity in the market, with the strategy's exposure to the energy sector increasing from approximately 7% at the end of Q2 to just under 9% by the close of Q3. The aggregate credit rating of the strategy remained unchanged at 'B', while duration increased marginally from 2.59 to 2.76, as a result of an initial effort to begin purchasing slightly longer dated maturity issues in order to capture minimum acceptable levels of yield. As previously mentioned, the corporate bond market



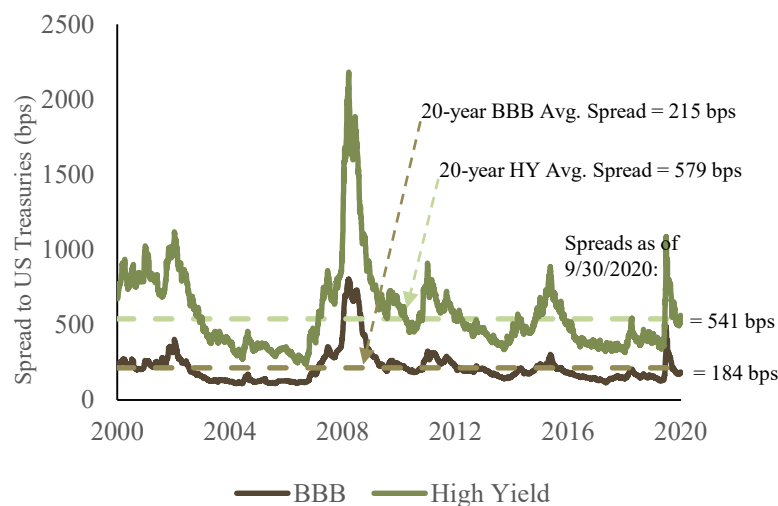


### UNCONSTRAINED FIXED INCOME STRATEGY COMMENTARY

has been on a surge since the lows experienced in late March at the onset of the COVID-19 pandemic. The Federal Reserve's unprecedented action to begin purchasing corporate bonds and providing a hard floor on investment grade issuer prices led to over 10% returns in Q2 for all corporate bond issuers in aggregate, with that segment up around 6.50% year-to-date. Although numerous pockets of distressed securities still remain within the corporate bond market, and bankruptcies are continuing to mount, investor demand for risk-assets returned to the markets with a fury over the preceding six months. Option-adjusted spreads on both high yield and the lowest rated 'BBB' investment grade corporate bonds are trading at 38 bps and 31 bps respectively below their 20-year averages.

corporate bond market substantially during the quarter, and we anticipate that trend will continue in the months ahead making 'reinvestment risk' our greatest concern and challenge in investing strategy assets. Despite elevated valuations and limited inventories, there is value to be found in the corporate bond market, and we anticipate to find the best quality issues in the materials, industrials, and financials sectors. As always, we will continue to invest opportunistically in seeking to attain sound risk adjusted returns in this challenging environment.

#### BAML OAS HIGH YIELD & BBB



It is hard to argue that corporate bonds are not currently richly priced, especially given the amount of distress that is still present in the market. With rates near zero, and expected to remain so over the next two plus years, finding adequate yield at acceptable levels of risk will be a challenge facing all fixed income investors. The current interest rate environment and return of market stability increased call activity in the



## 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, 2019 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 Altrius Global Income Composite was created in December 2010 with a performance inception date of December 31, 2002. Prior to September 2012, the Altrius Global Income Composite was named the Altrius Global Total Return Composite. The minimum value threshold of the composite is \$250,000. Accounts included are comprised of all actively managed balanced accounts with no exception to our discretion definition. Individual accounts will be aggregated with other accounts to achieve the \$250,000 minimum when the entity maintains related accounts with a collective objective.

Accounts are included on the last day of the month in which the account meets the composite definition. Any account crossing over the composite’s minimum threshold shall be included in the composite at the end of the month it increased in market value. New accounts to a family are added to the composite the day they are funded when the family account already exists and is in a composite. 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. Any account dropping below 85% of the composite’s minimum threshold shall be removed from the composite at the beginning of the month it declined in market value. Closed account data is included in the composite as mandated by the standards in order to eliminate a survivorship bias.



**DISCLOSURES**

**Benchmark**

The benchmark is the Morningstar Global Allocation TR USD. It was changed from a blended index with a static allocation of 40% S&P® 500 Total Return Index, 40% Barclays Capital Aggregate Bond Index, 8% Russell 2000 Index (with dividends) and 12% MSCI EAFE Net Index as of 11/01/2019 and changed retroactively for all periods. The change was made due to licensing fees being charged by the firms who own the indices. 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 that 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 Global Income Composite Performance**

*December 31, 2008 – December 31, 2019*

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
2009	28.15	26.46	23.63	14.38	14.06	98	3.04	71,739,801	67.84
2010	13.00	11.61	12.12	15.87	15.63	103	0.64	83,168,345	69.63
2011	1.59	0.38	(2.39)	13.62	13.01	101	0.43	79,573,159	63.96
2012	9.01	7.71	12.24	11.51	11.20	105	0.74	90,276,586	66.88
2013	23.92	22.56	13.19	9.65	9.19	117	1.08	114,605,971	66.41
2014	1.79	0.65	3.66	7.44	7.18	128	0.39	125,816,104	66.47
2015	(7.96)	(8.99)	(1.98)	9.32	7.04	114	0.48	88,085,706	47.93
2016	17.24	15.90	7.00	10.01	7.15	133	0.97	130,921,004	48.99
2017	13.11	11.82	17.12	9.50	6.59	142	0.45	138,678,370	40.70
2018	(4.89)	(5.95)	(5.56)	8.07	6.84	148	0.22	145,677,014	43.89
2019	17.06	15.80	18.53	7.77	6.92	146	0.89	175,505,685	51.57



## 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.

The standard management fee for the Altrius Global Income Composite 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 Global Allocation TR USD) 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.