



Generating Income - A Generational Struggle

September 2019

We are keenly aware of the struggle that our clients have generating income in their fixed income allocations. Whether you are an individual or family with a core allocation to the tax-exempt municipal market, or a foundation trying to generate benefit dollars, or a pension fund attempting to cover long liabilities, the persistent low interest rate environment has strained the decision-making process. For our part, we have tried to be innovative and thoughtful in creating strategies, based on our clients' needs, that attempt to address these concerns within the constructs of what we do well.

As many of you know, we developed a Multi Sector (MITX) strategy a number of years ago as an alternative for investors interested in accepting higher levels of risk to achieve higher levels of income. The standard application of the strategy includes high dividend paying common stock, preferred stock, corporate bonds and taxable municipal bonds. However, many of our clients already have sizeable equity positions, but were interested in variations on the strategy that focused on the non-common stock sectors of the strategy. As a result of these collaborations, we now offer three variations of our Multi Sector strategy. The general parameters of those are outlined below:

Multi Sector Strategy Options	Standard MITX	MITX No Common Stock	MITX Bonds Only
Target Yield Gross of Fees	2.00%+ Above 10-Yr U.S. Treasury Yield	2.00%+ Above 10-Yr U.S. Treasury Yield	2.00%+ Above 10-Yr U.S. Treasury Yield
Sector Allocations	Common Stocks, Preferred Stock, Corporate and Taxable Municipal Bonds	Preferred Stock, Corporate and Taxable Municipal Bonds	Corporate and Taxable Municipal Bonds
Target Duration (Bonds)	2-10	2-10	2-10
Maximum Common Stock Allocation	40%	N/A	N/A
Rating Mix (Bonds)	Investment and Non-Investment Grade	Investment and Non-Investment Grade	Investment and Non-Investment Grade
Minimum Individual Bond Ratings	'BB' Category	'BB' Category	'BB' Category

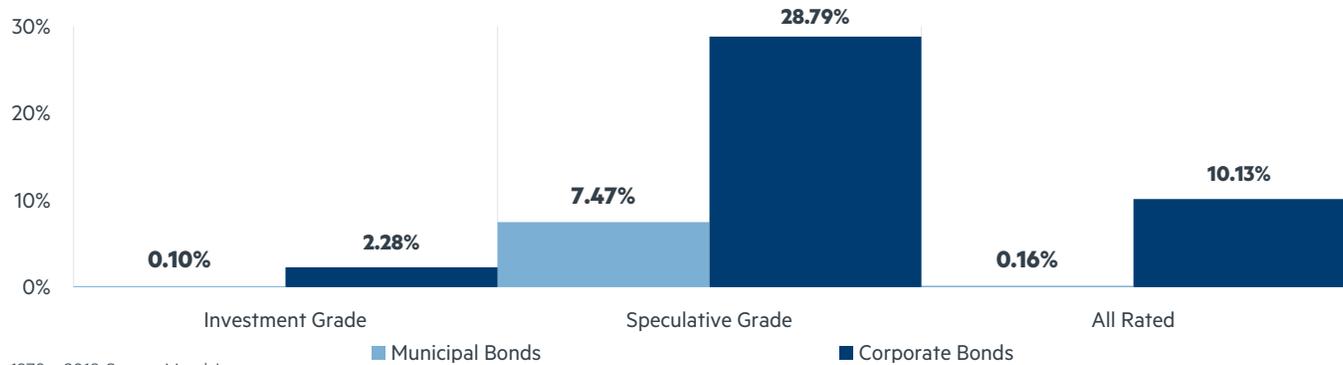
Multi Sector Bonds-Only Strategy Option

In keeping with the discipline that is the hallmark of every WS portfolio, this variation of the MITX strategy, at its core, is the result of our in-house research efforts in the corporate and taxable municipal markets.

On the corporate side, we concentrate on longer maturity, lower rated large company bonds that are part of our corporate bond universe. We specifically seek out those companies that are rated 'BB' that we believe should have a 'BBB' category rating, or those who are managing to a lower rating for strategic, capital allocation purposes.

For taxable municipals, we focus on credits that are in the 'BB' through 'A' categories that our research staff has identified as being stable, or who have a path to stability and trade at advantageous yields. We feel that this area of the market is one that delivers significant yield with a much lower incidence of default than traditional investment grade and high yield bonds, which the graph below shows.

Municipal Market vs. Corporate Market 10 Year Default - Credit Summary



Different Value Proposition than Traditional High Yield Strategies

When trying to layer in higher yielding assets, investors have a number of choices, but most of those choices are centered on corporate credit, and specifically high yield credit. Traditionally, high yield has had high correlations to the equity market and that makes perfect sense as these low rated bonds exhibit some equity-like risks.

In our strategy, we try to diversify this risk:

- By focusing on lower quality investment grade and higher quality high yield (typically called the crossover market) we reduce volatility, though we do accept less yield to do so than some high yield alternatives. This is in stark contrast to most high yield funds where exposures are in predominately single 'B' and lower rated credits.
- We make a significant allocation to the taxable municipal market with a focus on bonds rated 'A' to 'BB'. Credit dynamics in this market are driven by a number of factors that differ from corporate credit, thus providing strong yield characteristics with true diversification. These securities have little correlation to the equity and high yield markets, which is a key differentiator of our approach.

In summary, we believe that this MITX bonds-only strategy can help investors achieve their income goals in a difficult, secular low yield environment. We do this by employing a defined risk management structure and utilizing our significant, in house research effort. We welcome your questions and interest.



JOHN MAJOROS

Director of Taxable Portfolio Management

John Majoros holds the positions of Managing Director, and the Director of Taxable Portfolio Management. He is responsible for the oversight of all taxable strategies at Wasmer Schroeder (WS).

Mr. Majoros earned his B.B.A. in Finance from Cleveland State University and his M.B.A. in Finance from Fordham University. He is a member of the Firm's Executive, Investment, Credit and Portfolio Management committees.

Multi-Sector Income - MITX

Year	MITX Composite Total Gross Return (%)	MITX Composite Total Net Return (%)	Number of Portfolios End of Period	Dispersion (%)	3 Yr. Ex-Post Standard Deviation Composite	Total Composite Assets End of Period (\$ Millions)	Total Firm Assets End of Period (\$ Millions)
2015*	-0.75	-0.87	2	N/A	N/A	2.9	5,645.8
2016	11.19	10.42	10	N/A	N/A	9.0	7,531.3
2017	13.38	12.66	27	0.25	N/A	22.3	8,252.2
2018	-1.93	-2.54	40	0.52	N/A	26.2	8,837.4

*2015 represents performance from the composite's inception 7/31/2015 to 12/31/2015.

As of 4/1/2019, the strategy and its composite name changed from Multi-Sector Fixed Income to Multi-Sector Income.

Disclosures

Wasmer Schroeder (WS) claims compliance with the Global Investment Performance Standards (GIPS®) and has prepared and presented this report in compliance with the GIPS standards. WS has been independently verified for the period 12/31/2000 – 12/31/2018. The verification report is 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.

Firm Information: WS was founded in 1987, and has been an investment advisor registered with the US Securities and Exchange Commission since 1988. The firm works with advisors and clients to provide taxable and tax exempt fixed income portfolio solutions to meet their needs. Portfolios typically include a mix of cash and fixed income securities. The MITX fee schedule is as follows: 0.75% for first \$1 million and 0.50% for over \$1 million. Fees may be subject to negotiation where special circumstances warrant.

Composite Characteristics: The MITX composite was created on 10/31/2015. The strategy seeks to deliver a consistent, diversified stream of income across multiple asset classes. The strategy derives its income from investments in higher yielding common stocks, preferred stock, corporate and taxable municipals bonds. Below investment grade securities can be held but are not an integral component of the overall strategy. Investments that generate K-1's to investors are not included in the strategy. A complete list and description of all firm composites is available upon request. The minimum portfolio size for composite is \$250,000. On 10/1/2017, the composite minimum changed from \$500,000 to \$250,000. There is currently not an appropriate benchmark to compare to this strategy due to the multiple asset classes and changing sector allocations.

Calculation Methodology: WS's performance calculations represent a size-weighted investment return associated with a composite of portfolios having similar investment objectives. Valuations and returns are computed and stated in U.S. dollars, and individual portfolios are revalued monthly. Composite returns are time-weighted and inclusive of cash. Gross of fees returns are calculated gross of management and custodial fees and net of transaction costs. Net of fees returns are calculated net of actual management fees and transaction costs and gross of custodian fees. The composite results portrayed reflect the reinvestment of income, gains, and other earnings when appropriate. Accruals for fixed income and equity securities are included in calculations. The dispersion measure represents the asset-weighted standard deviation of the gross performance of the accounts in the composite for the entire year. For those years when less than six portfolios were included in the composite for the full year, no dispersion measure is presented.

Credit Quality Disclosure: For periods prior to 10/1/2011, WS reports credit quality for individual issues based on the highest of the available credit ratings from the three

primary rating agencies: Standard & Poor's, Moody's and Fitch. For periods 10/1/2011 and going forward, the rating shown is the middle rating ranked lowest to highest by the three primary rating agencies, if three ratings are available. If only two ratings are available, WS shows the lower of the two ratings. More information about the ratings assigned to the securities in the Portfolio by each ratings agency is available upon request. The ratings shown may not reflect the ratings as of the report date; ratings are updated periodically and are subject to change without notice. During periods of market volatility, ratings may change dramatically.

Other Disclosures: This performance report should not be construed as a recommendation to purchase or sell any particular securities held in composite accounts. Past performance does not guarantee future results. Market conditions can vary widely over time and can result in a loss of portfolio value. Beginning with the periods after 3/31/2004, portfolios with capital flows in excess of 10% of total market value are excluded from the composite. These accounts are reviewed on a monthly basis for composite inclusion following the excluded period. Beginning with periods after 2/28/2014, portfolios with capital flows are not excluded from the composite. New portfolios that meet the inclusion criteria for the composite are included at the end of the month following the management inception date. Total Firm Assets stated in the table above are discretionary assets only and they do not include assets in which WS acts in an advisory only capacity. As of 12/31/2018, WS had \$56.7 million of advisory only assets under management. The combined total discretionary and advisory only assets as of 12/31/2018 were \$8.9 billion. The total entity assets are presented as supplemental information to the compliant presentation. Additional information regarding treatment of significant cash flows and policies for valuing portfolios, calculating performance and preparing compliant presentations are available upon request.