Tactical Income Solution Updates

June 24, 2022

Thank you for your continued trust and confidence. We would like to inform you that we placed some trades in the Tactical Income Solution portfolio. We sold the Lord Abbett Bond Debenture Fund (LBDFX) and invested the proceeds into Eaton Vance Floating Rate Fund (EIBLX) and Lord Abbett Short Duration Income Fund (LDLFX).

Lord Abbett Bond Debenture provided clients exposure to the high yield bond market that benefitted mightily during the post-covid pandemic recovery. However, with a much more aggressive tightening monetary policy, deteriorating financial & economic conditions, and mediocre risk premiums, we've decided to scale back on our fixed income credit and duration risks through this action. The Lord Abbett Short Duration Income Fund (LDLFX) primarily consists of short-term investment grade corporate credit with limited duration while the Eaton Vance Floating Rate Fund comprises of BB average floating rate debt that protects against rising rates while still collecting an above average coupon payment. Rising short term rates could also benefit floating rate bonds as coupon payments reset at a higher level which equates to income raises.

Both these options are meant to mitigate fixed income interest rate risks while being mindful of a potential economic slowdown. While recessionary concerns may cause us to move up the credit quality ladder even further and extend our duration, we view our current fixed income positioning as constructive and tactical in today's landscape- but may be subjected to change if conditions change.

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With income being a core objective of Tactical Income Solution, we also aim to provide an income yield twice that of the S&P 500 while acutely managing downside risks and volatility. Changes in our fixed income positioning resulted in an approximate 0.13% reduction in income yield which we intend to overcome by increasing the dividend yield in our equities positioning. As a result, we are also announcing the replacement of Ingredion (INGR) with AT&T (T) in Tactical Income Solution. INGR manufacturers starches and sweeteners by processing corn and other starch-based raw materials. Corn makes up their largest input cost and commodities inflation and volatility are adversely affecting margins and predictability of its business. AT&T (T) was a part of Tactical Income Solution in the past but was replaced due to its debt burden, dividend unsustainability, and low moat media business. However, the company has since re-focused back to its wider moat core telecom business after its closing of the Warner (WBD) transaction. We view the cash cow characteristics of its core telecom business as a source of stability in today's volatile environment and are more confident in their ability to sustain and grow their dividends after resetting it to better align with the cash flows of its core telecom business.

In summary, fixed income investing in today's environment is extremely dynamic with push-pull factors originating from inflation and higher rates to recessionary fears. We continue to believe that interest rate risks remain the primary source of risk in fixed income driven by an extremely hawkish Fed that may be behind the price curve. However, that may accelerate the timeline of reaching the neutral rate, or in the case of a policy mistake, may result in rates overshooting which may alter our fixed income stance to higher quality and longer duration. The equities portfolio in Tactical Income Solution have held up extremely well in the face of today's volatility and our decision to include AT&T (T) into the portfolio reinforces the defensive stance of our equity positioning.

If you have any questions about these or any changes in your Liberty One portfolio(s), potential tax implications, or would simply like to learn more, please contact your financial advisor.

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