

# TACTICAL INCOME SOLUTION UPDATES

July 26, 2023

Thank you for your continued trust and confidence. We would like to inform you that we have made some changes to the Tactical Income Solution portfolio. We've increased our Fixed Income exposure from 30% to 50% while reducing our Equity exposure from 70% to 50%. Given the recent run up in equity valuations, potential economic weakness, and higher starting nominal interest rates not seen since the Great Financial Crisis (GFC), our Investment Committee believes this portfolio adjustment optimizes the portfolio's ability to maximize income, minimize downside risks, while still allowing for upside capital appreciation potential.

Within our Fixed Income allocation, we've added two new funds and kept our duration at approximately 4.5 years, below that of the Bloomberg Aggregate Bond Index of 6.3 years. We think that there are additional risks with extending duration at this juncture due to a stickier medium-term inflationary picture (de-globalization, de-carbonization, and re-wiring of global supply chains) that were not present in the previous interest rate cycle. This could cause more fluctuations in long-term rates as markets adjust to new information, making long-term bonds more volatile than they've averaged in the past. Nonetheless, investing in Fixed Income at the peak of interest rate cycles has historically yielded very positive results for investors, with cycles typically lasting about a decade before the opportunity for peak rates arises again. We plan to take advantage of this opportunity today. We continue to prefer and emphasize higher credit quality. Over 90% of interest payments in the bond portfolio are backed by Investment Grade Credit entities.

Within our Equity allocation, we've maintained our 25 *Recession Resistant* stock positions at a 2% weighting each. The focus on the strength of the dividend as a return driver coupled with the consistent nature of the businesses that we invest in gives us confidence in the ability to capture upside potential, strong dividend growth, with lower volatility. The dividends paid are also backed by Investment Grade Credit companies, that have historically increased their dividends year after year. With both the interest payments from the bonds and dividends from the equities being backed by high quality companies, the income-producing ability of Tactical Income Solution remains extremely resilient.

Equity valuations have moved up considerably this year while fixed income continues to re-price as rates have ticked up. However, that repricing has stagnated recently, indicating signs that interest rates are peaking. We are taking this opportunity to rebalance our asset allocation, by protecting our equity profits and repositioning them in higher income producing and lower volatility fixed income positions. We continue to be highly focused and actively manage the portfolio in accordance with Tactical Income Solution's investment objectives- which are to maximize income, minimize downside risks, and allow for long-term capital appreciation potential.

You nor your clients need to act at this time.

If you have any questions, please don't hesitate to reach out to us. Thank you for your continued trust and confidence.

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