Blue Current

BLUE CURRENT ASSET MANAGEMENT

Global Dividend Growth SMA

International Dividend Growth SMA

2023 – Q2 Quarterly Letter

Blue Current SMA Strategy

Q2 2023

Dear Investors,

The Blue Current Global Dividend Strategy composite returned +3.9% (net) during the second quarter of 2023, improving the trailing one-year return to +14.1% (net). In comparison, the MSCI World High Dividend Yield Net Index returned +2.1% for the quarter and +8.0% for the trailing one year. Results are shown net of a 1% fee.

The Blue Current International Dividend Strategy composite returned +3.0% (net) during the second quarter of 2023, improving the trailing one-year return to +12.3% (net). In comparison, the MSCI EAFE Value Net Index returned +3.2% for the quarter and +9.3% for the trailing one year. Results are shown net of a 0.5% fee.

We remind you, however, that our strategy is not managed to any specific equity index; instead, it focuses on identifying companies that will pay a stable, increasing dividend and generate an attractive total return.

ACHIEVING THE IMPOSSIBLE

Despite the Fed's checkered history during prior interest rate cycles, investors are finally warming to the notion of a soft economic landing, an outlook that we have described as the base case scenario for most of the year. Reinforcing the more upbeat outlook, odds of a US recession in 2023 continue to decline as a healthy labor market shows few signs of capitulation and the forecasting community, whose members look more sheepish by the day, are now pointing to 2024 as the recession year. We concede that the economy is experiencing rolling recessions (e.g. commercial real estate, manufacturing), but there have been enough positive offsets (e.g. consumer spending) to keep the world's largest economy chugging along. Falling inflation and fuel prices are supporting the consumer whose spending rate is slowing but remains resilient and supportive of economic growth. Manufacturing has been in broad contraction for several months, but the July PMI manufacturing data showed continued improvement with a reading of 49, up from the 46 reading in June and nearing the critical 50-threshold that signals expansion. Even residential construction, the sector arguably most exposed to a 7% 30-year mortgage rate, is holding up well as the millennial generation looks to settle down and start a family and needs more than a one-bedroom apartment to live happily. Much of this remains possible due to the health of the labor market, which is showing few signs of cracking but is normalizing after two years of frothy job gains and wage growth. Until the Fed breaks the back of the labor market, it will be difficult for recessionary probabilities to rise from current levels.

While inflation is clearly cooling in the US, it remains a problem in the United Kingdom and across the eurozone. In the UK, core inflation registered a 6.9% rate in June, a slight decline from May, but still elevated versus expectations. It is important to note that the inflation rate is uniquely calculated by each country based on how they define the "basket of goods"; therefore, cross-country comparisons may not be relevant. The Bank of England is expected to continue to raise interest rates in 2023 to slow inflation down to more manageable levels for the consumer, a group that is under intense financial pressure. The UK economy has also exhibited the most lackluster post-Covid rebound of the major developed markets, raising concerns that stagflation may be the base case for the foreseeable future. A bright spot for the UK economy is that the debt to GDP ratio remains favorable relative to other major economies, and the rebound in sterling should help dampen imported inflation, creating a natural headwind to higher prices. The conundrum is how to deploy the balance sheet in a way that addresses the inflationary bottlenecks but doesn't ignite the same problem you are trying to extinguish. Good luck!

We would place the recovery of the eurozone between that being experienced in the US and the more challenging conditions in the UK. Although the longer-term trend is down, core inflation came in at 5.5% in June, marking an acceleration from the 5.3% reading in May, and reinforcing expectations for continued rate hikes by the ECB. While higher interest rates have had a mixed impact on the direction of the US economy, the significance is clearer in Europe as most major countries are teetering on the brink of recession with near 0% GDP growth. Recent PMI releases indicate a broad slowdown in industrial activity across the region with Germany and France reporting June PMI figures below 50 – the threshold that indicates growth or contraction. Leading indicators such as new orders and backlog are also continuing to shrink. Against that backdrop, eurozone unemployment remains near record lows and local equity indices in many regions remain near all-time highs. From the early batch of earnings releases that we have reviewed in July, European corporations continue to perform better than expectations. Similar to the inconsistent behavior we are seeing in the US, the traditional linkages between forward economic indicators and stock market performance are proving to be incongruent.

BLUE CURRENT PHILOSOPHY AND OBJECTIVES

At Blue Current, we use our broad knowledge of cash flow growth rates to invest in a niche universe of high-quality, dividend-paying companies with sustainable business models and dividend policies. Our primary objectives are to pay a stable and increasing dividend each quarter and deliver attractive, long-term capital appreciation.

The concentrated portfolio invests in 35 to 45 companies, domiciled across developed markets, that meet our stringent quality requirements. We focus on companies that have a history of rewarding shareholders and have the financial ability to continue to increase their dividends over time. Furthermore, we focus on each company's earnings potential, and we strive to purchase the stock of those businesses when it is trading at a discount to what we see as its true value.

PORTFOLIO ATTRIBUTION

GLOBAL SMA

Given the narrow market leadership during the quarter, it will come as no surprise that the Information Technology sector contributed 247bps to quarterly performance. The sector represented an average weight of 14% in the global portfolio during the quarter. Microsoft and Broadcom have been core holdings within the global portfolio since 2009 and 2019, respectively, while BE Semiconductor was added to the portfolio in 2022. Sectors that lagged during the quarter include Energy, Real Estate, and Utilities. The global portfolio is invested 50% in US equities and 50% in international-developed equities.

INTERNATIONAL SMA

The largest sector weight in the International SMA is Industrials at just over 17% of capital. This is followed by Financials at 16% and Consumer Staples at 11%. For comparison to the Global SMA, the Information Technology sector represents a 10% weight in the portfolio. Led by BNP Paribas and the National Bank of Canada, the Financials sector was a strong performer during the quarter. Comparatively, the Energy sector was a laggard as crude and WTI prices retreated during the second quarter. The eurozone represents approximately 50% of invested capital.

GLOBAL	bps	INTERNATIONAL	bps
CONTRIBUTORS		**CONTRIBUTORS**	
BROADCOM INC	130	BE SEMICONDUCTOR INDUSTRIES	72
MICROSOFT CORP	75	BNP PARIBAS	54
BE SEMICONDUCTOR INDUSTRIES	44	ACCENTURE	33
BNP PARIBAS	34	AIR LIQUIDE	25
COCA-COLA EUROPACIFIC PARTNERS	30	NATIONAL BANK OF CANADA	18
DETRACTORS		**DETRACTORS**	
TARGET CORP	-20	DEUTSCHE TELEKOM	-30
BP PLC	-19	BP PLC	-18
QUALCOMM INC	-17	DBS GROUP HOLDINGS	-11
UPM-KYMMENE OYJ	-17	ENBRIDGE INC	-3
KRAFT HEINZ CO/THE	-15	MICHELIN	-1

PORTFOLIO ACTIVITY

BUYS

HITACHI (Global / International SMA)

Hitachi has undergone extensive corporate restructuring resulting in a more aligned global industrial powerhouse with three core business segments emphasizing digital integration, automation, and green energy. The company is actively flexing its balance sheet to buyback stock and pay dividends. At a 14x PE, the company trades at a discount to peers but possesses greater upside margin potential than European and US peers.

NORFOLK SOUTHERN (Global SMA)

This US Class 1 railroad will likely continue to face headline and regulatory pressures; however, the valuation discount relative to peers was too great to ignore during the quarter. While the final numbers are still being assessed, the company's insurance policy should insulate liability risk to the balance sheet.

VINCI (International SMA)

Global design and build company with specialties in motorways, transport infrastructure, and energy-related projects. Heightened spend in global infrastructure and clean energy should benefit Vinci's construction business, while elevated inflation will act as a tailwind to their transportation businesses, which have concession fees linked to CPI.

TRUIST (Global SMA)

While the quarter was disappointing, there was acknowledgment that a bolder plan is needed at Truist. With some pressure on the CEO, we believe there is ample opportunity within the bank to reduce costs and take a more active approach to driving shareholder value than has been exhibited thus far. With a PE of less than 9x and a dividend yield of 6.3%, we still find the bank to be one of the more compelling stories.

SELLS

CANADIAN NATIONAL RAILWAY (Global SMA)

Liquidated in favor of the valuation discount offered in Norfolk Southern.

UPM KYMMENE (Global / International SMA)

Weakness in the demand and pricing environment for pulp and paper products created downward pressure on our forward forecasts and we ultimately decided that there are better opportunities elsewhere. The position's value declined mid-single digits over the ownership period.

AXA (International SMA)

Increasing natural catastrophe risks and rising cost pressures via materials inflation will likely continue to place pressure on operating profits. Despite the attractive valuation, we view the upside as being fairly limited given the backdrop, and we decided to focus on Allianz, a long-standing portfolio company with arguably better underwriting and no exposure to reinsurance. We generated a negligible profit in the position.

JP MORGAN (Global SMA)

We may regret the decision to exit the best-managed global bank, but we felt the company was fairly valued while the rest of the banking sector has been materially rerated lower in the face of a challenging interest rate and deposit environment. We invested in JP Morgan in March 2020.

INVESTMENT OUTLOOK

Coming off the heels of multiple US bank failures in March, the second quarter has surprised most investors to the upside with equity markets continuing to chase down the all-time highs that were delivered in 2021. In our first-quarter letter, we shared our view that the US economy could be headed for the unthinkable soft-landing, and we believe that the rest of the market is now embracing that outlook. The supporting evidence is becoming undeniable: inflation continues to trend lower, unemployment has yet to show signs of stress, the consumer remains resilient, corporate profit margins are proving more durable than expected, and credit markets remain in good order. Nothing has broken yet! We concede that not everything is rosy as commercial real estate headwinds continue to mount, inflation is still well above the 2% Fed target, and geopolitical risks are escalating, specifically in China. Despite what could go wrong, the weight of the evidence still supports a constructive US economic outlook, and we expect the US to remain one of the better performing major economies throughout 2023 and into 2024.

As we have experienced in the past, however, stronger economic growth doesn't always translate to better equity returns. Currency volatility is one reason why the relationship between economic health and stock market returns can be uncorrelated at times. In 2023, we have seen multiple developed market currencies (sterling, euro, yen) appreciate versus the US dollar, thereby accelerating returns derived from non-US assets for many of our investors. With the US Federal Reserve alluding to the cessation of future rate hikes and overseas central banks still seemingly intent on pushing rates higher, we expect that financial capital will continue to favor foreign currencies, all other factors being equal. There is a strong case to be made that investors should seek to diversify what has become extremely concentrated risk positions in US assets, and we think owning a diversified basket of high-quality equities denominated in multiple currencies makes more sense today than in the past. Our global strategy offers a balance of diversification with 50% of the portfolio based in the US and the remaining investments domiciled across 8-10 countries. For investors with significant US exposure, we also offer an international strategy with similar investment qualities – companies committed to dividend growth that are undervalued and possess strong cash flows and balance sheets. None of our strategies invest directly in emerging markets.

We find it incredibly hard to turn a blind eye to some of the frothier valuations, so we are trimming some of our 2023 winners – these names would include Microsoft, Broadcom, and BE Semiconductor. Microsoft and

Broadcom will remain core positions but at lower position weights than in the past. With the free capital, we have reallocated to some of the cheaper sectors within equities including autos, materials, financials, and select areas within healthcare, such as medical devices. The net result is a portfolio that is cheaper and possesses a higher dividend yield but is more tilted toward cyclical businesses. While it is too early to call it a trend, we have seen renewed investor interest in stocks outside the technology sector, and we view this new momentum favorably, as more than 85% of the capital is invested in sectors away from technology.

Thank you for your interest in Blue Current. For more information on our strategy, please visit http://www.bluecurrentportfolios.com.

Sincerely,

Henry "Harry" M. T. Jones
Co-Portfolio Manager

Dennis Sabo, CFA
Co-Portfolio Manager

Blue Current Global Dividend											
Year	Blue Current Global Dividend Gross Return	Blue Current Global Dividend Net Return	MSCI World High Div Yield Net Index Return	MSCI World Net Index Return	Blue Current Global Dividend Standard Deviation	MSCI World High Div Yield Net Standard Deviation	MSCI World Index Net Standard Deviation	Internal Dispersion	Number of Portfolios	End of Period Composite Assets (In Millions)	End of Period Firm Assets (In Millions)
2009	16.11%	14.97%	32.48%	29.99%	NA [2]	24.23%	21.70%	NA [1]	< 6	$2	$11
2010	13.85%	12.71%	6.29%	11.76%	NA [2]	25.89%	24.05%	NA [1]	< 6	$2	$33
2011	9.67%	8.58%	3.89%	-5.54%	14.98%	21.81%	20.44%	NA [1]	< 6	$19	$78
2012	12.50%	11.40%	12.24%	15.83%	12.58%	15.33%	16.98%	0.49%	16	$31	$191
2013	30.14%	28.88%	21.91%	26.68%	10.53%	11.88%	13.73%	0.29%	46	$71	$268
2014	4.40%	3.35%	2.48%	4.94%	8.84%	10.44%	10.37%	0.31%	57	$115	$337
2015	-1.04%	-2.03%	-3.20%	-0.87%	10.37%	11.16%	10.80%	0.64%	58	$123	$325
2016	10.05%	8.98%	9.29%	7.51%	10.00%	10.46%	10.92%	0.61%	56	$145	$384
2017	20.66%	19.48%	18.14%	22.40%	9.14%	9.59%	10.38%	0.23%	106	$230	$555
2018	-10.23%	-11.13%	-7.56%	-8.71%	9.74%	9.14%	10.53%	0.47%	140	$205	$305
2019	26.24%	25.01%	23.15%	27.67%	10.69%	9.80%	11.29%	0.65%	164	$252	$364
2020	6.81%	5.75%	-0.03%	15.90%	18.19%	15.69%	18.27%	0.57%	162	$231	$399
2021	19.15%	17.96%	15.83%	21.82%	17.45%	15.50%	17.06%	0.57%	137	$243	$450

Source: Blue Current Asset Management. See GIPS® disclosure at the end of this report.

Blue Current Global Dividend Strategy *Composite includes all fully discretionary, fee paying accounts under management following a common investment objective, including those accounts no longer with the firm. Blue Current Asset Management offers pre-defined equity strategies using a team-managed approach. Prior to January 1, 2018, the GIPS Firm Definition included certain fixed income strategies; however, it was determined that these strategies were managed differently and did not meet the pre-defined, team-based approach required for inclusion in the GIPS Firm. The GIPS "firm" definition is the foundation to ensure all portfolio accounts within the division of Blue Current Asset Management are assigned to a composite. The Composite invests primarily in domestic or international securities the portfolio manager feels have the potential to deliver outperformance due to a combination of price appreciation and current income in the form of a dividend. The composite will typically invest in securities with a current dividend yield in excess of the broad equity markets with a history of consistently increasing the dividend rate and with what we believe to be strong fundamentals at an attractive price (i.e. low use of leverage, operating margins in excess of 5%, free positive cash flow yield, a price to earnings ratio at or below the market average, and earnings growth). The Global Dividend Equity Composite was created and incepted on 1 January 2009.*
The U.S. Dollar is the currency used to express performance. Returns are presented gross and net of management fees and include the reinvestment of all income. Net of fee performance was calculated using the highest allowable annual management fee of 1% applied monthly. The annual composite dispersion presented is a gross asset-weighted standard deviation calculated for the accounts in the composite the entire year. Policies for valuing investments, calculating performance, and preparing GIPS Reports are available upon request. Past performance is not indicative of future results.

The investment management fee schedule for the composite is 1% on the first $5 million, 0.7% on the next $5 million, 0.65% on the next $10 million, 0.55% on the next $30 million, 0.45% on the next $50 million. Fees for assets over $100 million are at a rate customized to the client. Actual investment advisory fees incurred by clients may vary.

The benchmark MSCI World Index includes 1650 stocks located across 23 developed countries and captures approximately 85% of the free float-adjusted market capitalization in each country. MSCI uses the maximum withholding tax rate applicable to institutional investors in calculating MSCI net dividends. Withholding taxes may vary according to the investor's domicile. Composite returns are calculated net of withholding tax and represent investors domiciled primarily in the United States. The MSCI Indices uses withholding tax rates applicable to GHI Country holding companies. The benchmark MSCI World High Dividend Yield Index is based on the MSCI World Index, its parent index, and includes large and mid-cap stocks across 23 Developed Markets countries. The index is designed to reflect the *performance of equities in the parent index (excluding REITs) with higher dividend income and quality characteristics than average dividend yields that are both sustainable and persistent. The index also applies quality screens and reviews 12-month past performance to omit stocks with potentially deteriorating fundamentals that could force them to cut or reduce dividends. MSCI uses the maximum withholding tax rate applicable to institutional investors in calculating MSCI net dividends.*

Blue Current claims compliance with the Global investment Performance Standards (GIPS®) and has prepared and presented this report in compliance with the GIPS standards. Blue Current has been independently verified for the periods January 2009 to December 2021. A firm that claims compliance with the GIPS standards must establish policies and procedures for complying with all the applicable requirements of the GIPS standards. Verification provides assurance on whether the firm's policies and procedures related to composite and pooled fund maintenance, as well as the calculation, presentation, and distribution of performance, have been designed in compliance with the GIPS standards and have been implemented on a firm-wide basis. The Blue Current Global Dividend composite has had a performance examination for the periods January 2009 to December 2021. The verification and performance examination reports are available upon request. Note: Blue Current firm AUM has been amended. Ashland Partners & Company verified for the periods January 2009 to December 2016 and ACA Performance Services has verified performance from January 2017 to December 2021. For additional information, please refer to bluecurrentportfolios.com.

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