Blue Current

BLUE CURRENT ASSET MANAGEMENT

Global Dividend Growth SMA

International Dividend Growth SMA

2023 – Q3 Quarterly Letter

Blue Current SMA Strategy

Q3 2023

Dear Investors,

The Blue Current Global Dividend Strategy composite returned -4.2% (net) during the third quarter of 2023, reducing the trailing one-year return to +18.6% (net). In comparison, the MSCI World High Dividend Yield Net Index returned -1.7% for the quarter and +16.7% for the trailing one year. Results are shown net of a 1% fee.

The Blue Current International Dividend Strategy composite returned -3.6% (net) during the third quarter of 2023, reducing the trailing one-year return to +8.5% (net). In comparison, the MSCI EAFE Value Net Index returned +0.6% for the quarter and +9.9% 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.

THE LAST MILE IS THE HARDEST

All of us knew that should deflationary forces sputter before inflation statistics reach a level below 3%, the Fed would be left with some challenging decisions, few of which would be favorable for equity markets. The most optimistic path for risk assets would be if Jerome Powell walked back the 2% inflationary target to something a touch higher and more achievable. At this juncture, that doesn't appear to be the base case. The tougher decision to make, and one that is increasingly probable, would be to toe the line on a 2% inflation target and continue hiking short-term rates with the intent of breaking inflation's back. This approach harkens back to the one that former Fed Chairman Paul Volcker employed through the 1970's which was incredibly unpopular but ultimately effective in squashing inflation. Should the Fed feel compelled to increase rates further, the US economy could tip into a recession. The US economy and the consumer have weathered the Fed's strongest blows to date; however, there is data suggesting that the consumer's wallet is approaching the later rounds and is showing serious signs of fatigue. Specifically, released statistics of credit card debt and car loan delinquencies are starting to set off alarm bells.

The alternative scenario (soft-landing) is still very much in play and is getting some help from capital market conditions. Intermediate and longer-term Treasury rates have moved higher in recent weeks, providing considerable help to the Fed in their efforts to tighten liquidity and bring inflation down without additional short-term rate increases. Financial market participants are forcing the issue. The two-year US Treasury Bond is now above government-released inflation, a relationship that some economists highlight as needed to quell inflation. The 10-year US Treasury Bond has also touched the 5% threshold, again a level that should tighten liquidity. Capital markets are helping the cause, but the question is whether it is enough to keep the Fed on pause through the cycle. We are all speculating as to what happens next but we wouldn't be surprised if the Fed remains on pause for longer.

Despite higher interest rates, the economic data continues to be robust, but the third quarter could represent the top of the cycle. Led by consumer spending and higher inventories, US Q3 GDP growth was released at a blistering 4.9% annualized rate. The BEA reported that consumer spending accounted for 2.7 percentage points, with spending on both goods and services remaining healthy. It is hard to envision this trend continuing given the level of credit card debt outstanding and that the moratorium on student loan payments has now ended for most. As indicated by PMI, manufacturing activity has accelerated and is now approaching expansionary conditions (a reading above 50). The more forward-looking indicator, ISM Manufacturing New

Orders, has also accelerated since the lows experienced in May. When combined with jobless claims, the information suggests that the US economy remains in growth mode and unfortunately suggests that inflation may remain more resilient than hoped for.

While the US economy remains heated, economic conditions in the eurozone are muddled, with the region's largest country contributor, Germany, showing a modest contraction (-0.3% y/y growth) in the recently released Q3 flash GDP estimate. Germany's industrial-based economy is no doubt feeling pressure from a slowing automotive cycle accelerated by China's move away from Germany's champion VW brand. Aside from industrials, Germany's consumer continues to spend less and is plagued by worsening confidence. Economists estimate that Germany may be the slowest-growing country in the region, with other tourism-led countries (Spain and Italy) performing slightly better. Conditions in the United Kingdom continue to be challenged due to stubbornly high energy prices – UK consumers are now paying ₤1.50 per litre (equivalent to nearly $7 per gallon in the US). This is the highest price since January 2023. Even if we exclude food and energy costs, UK inflation is still averaging close to 6.0%. Overall, the data remains muted and varied by country; however, inflation does continue to fall broadly, and the silver lining may be that the ECB is much closer to cutting rates than its US counterpart. Lower rates abroad could be a catalyst for European equities, which remain about as inexpensive as we have witnessed in over a decade, to begin performing.

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

The energy sector was the strongest contributor to quarterly performance (returning +14.3% in Q3 / contributing 1.1%). The sector represents approximately 10% of portfolio capital and was the only sector with a positive contribution during the quarter. The energy sector was followed by financials (returning -2.0% / detracting less than 1%) and real estate (returning -7.8% / detracting less than 1%). The largest detractors by sector include industrials (returning -11.3% / detracting 1.4%), consumer staples (returning -6.0% / detracting 1.1%), and information technology (returning -6.9% / detracting 0.9%).

INTERNATIONAL SMA

The largest sector weight in the International SMA is industrials, at just over 19% of capital. This is followed by energy at 14% and financials at 13%. The energy sector was the largest contributor to quarterly performance, adding 1.0% to portfolio performance. Aside from the energy sector, the materials sector (representing 9% of capital) made a slight positive contribution to performance, adding 6bps. The largest detractors were the consumer cyclical sector (detracting 1.3% from performance), industrials (detracting 0.6%), and the technology sector (detracting 0.3%). The technology sector represents approximately 11% of portfolio capital.

GLOBAL	bps	INTERNATIONAL	bps
CONTRIBUTORS		**CONTRIBUTORS**	
SCHLUMBERGER	38	EQUINOR	59
BP Plc	31	BP Plc	33
TARGA RESOURCES	27	SHELL Plc	31
NOVO-NORDISK	20	DBS GROUP	22
STELLANTIS	14	NUTRIEN	16
DETRACTORS		**DETRACTORS**	
RTX CORP	-72	DR ING PORSCHE	-75
DHL GROUP	-35	DHL GROUP	-69
DR ING PORSCHE	-35	DAIKIN INDUSTRIES	-56
NORFOLK SOUTHERN	-32	LVMH MOET HENNESSY	-40
MERCK & CO	-30	DANONE	-40

PORTFOLIO ACTIVITY

BUYS

DAIKIN INDUSTRIES (Global / International SMA)

Based in Osaka, Japan, Daikin Industries is one of the world's largest manufacturers of integrated and freestanding air conditioning units. The demand for space cooling has several long-term secular tailwinds. Depending on the region, local regulatory agencies (like the DOE) continue to raise efficiency standards, driving replacement rates. Daikin's global footprint and emphasis on energy efficiency places them in a dominant position.

NUTRIEN (International SMA)

Following the lead of crop and natural gas prices, the share prices of agricultural businesses peaked in 2022 and have experienced a challenging 18 months as earnings expectations have been continually rebased lower. With output prices and valuations at new lows, we believe the cycle is bottoming and that ag stocks are on sale. We like Nutrien's broad diversification (as opposed to other pure-play businesses) that includes retail, production, and crop protection.

YARA INTERNATIONAL (Global SMA)

Based in Norway, Yara is one of the world's largest producers of fertilizers and industrial products. LIke our view on Nutrien, we believe that the ag cycle will likely bottom in 2023 and that the ag stocks are inexpensive at present levels. The fertilizer supply chain remains fragile, and therefore prices will be volatile to the upside should any disruptions occur.

SELLS

AMERICAN EXPRESS (Global SMA)

We invested in American Express during the 2020 pandemic year and have been steadily taking profits in the position over the past several quarters; we fully exited in Q3.

NEXTERA ENERGY (Global SMA)

We were fortunate to exit Nextera ahead of the late September sell-off that removed 20% from the share price. Our decision to exit was largely based on our analysis that concluded the company's growth rate would slow over the coming years due to higher financing costs and challenges in executing large-scale renewable projects.

KRAFT HEINZ (Global SMA)

Over the 15 months that we were invested in KHC, the company was unable to make progress toward our financial targets, prompting us to sell the position in favor of other opportunities.

INVESTMENT OUTLOOK

The muted year-to-date performance, combined with the 2022 return, has reduced valuations for the "average stock" to very attractive levels – especially considering that earnings growth will be positive in 2023 for many underlying companies. Many sectors and subsectors, including financials, industrials, consumer discretionary, and even select consumer nondiscretionary businesses are pricing in depressing outlooks at current levels. The strongest valuation outlier continues to be technology stocks that are valued above average multiples despite earnings growth being less than impressive. We have owned Microsoft in our global strategy since its inception in 2009 (it once was a value stock), and the stock trades at 25x forward earnings for mid-teens earnings growth – note that Microsoft's earnings are expected to grow ~10%-12% in 2023 and the stock is valued at 29x on current year earnings. For companies such as these, we are still investing in the company for new accounts, but the initiation weights are lower than what we have done in the past.

Technology has always been a meaningful allocation across our strategies (ranging between 10% and 20%), but most portfolio capital will always be allocated across multiple sectors. If we removed our technology positions from our global portfolio, the resulting median forward 12-month PE ratio drops to 13.1x with an estimated 12-month forward earnings growth of 9% and a dividend yield of 3.4%. The ROE on the resulting portfolio is 18%, while the dividend coverage ratio is 3.6x. We feel that the best aspect of our strategy is that in a declining market, the portfolio's dividend yield can accelerate due to lower share prices and the embedded dividend growth rate across our portfolio companies.

Relative to history, we find the above statistics to be compelling, but investors need to believe that a few factors are in place to get comfortable investing away from growth stocks. We would look toward the following conditions to set the stage for a year-end rally and an attractive setup into 2024:

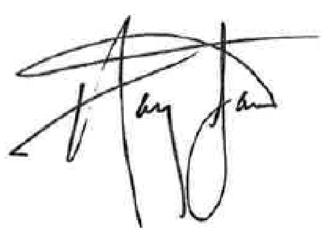
- A de-escalation of the events in the Middle East – the entirety of this letter could be allocated to the terrible events that have occurred, but others are far better suited to assess the conflict and direction it takes. Should the conflict widen, we do see a correlation between higher oil and inflation.
- More moderate economic growth – the US Q3 GDP growth rate is simply too strong for the Fed to turn a blind eye. Admittedly, weaker economic growth could lead to weaker earnings growth, but we think investors favor the former given the importance of the Fed.

- Increasing jobless claims - at the risk of sounding hypocritical, a slightly weaker job market is better for equities than robust job growth. Dampening of wage pressure is another catalyst for higher equity prices, and investors will remain in the “bad news is good news” camp for the foreseeable future.
- Peak interest rates – many of the above factors are connected and will lead to lower long-term rates if we are correct. Interest rates drive everything in financial markets, and we find it difficult to believe that equity multiples can expand again without this condition.

It is difficult to say when investors will refocus on the other 490 stocks in the S&P 500, but all it takes is a single data point for investors to pivot in a different direction. To take advantage of lower prices, we have added exposure to several positions in recent weeks, thereby lowering our cash position. The portfolio’s statistics (cited above) are compelling compared to recent history, and we expect another year of dividend growth in the portfolio.

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

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.

Blue Current Asset Management is a division of Edge Capital Group, LLC ("Edge") also referred to in previous presentations as Blue Current Investments. Edge is an independent registered investment adviser based in Atlanta, Georgia. Blue Current manages separate account strategies with defined investment objectives styles. Edge's total firm assets of approximately $5.0B (as of December 31, 2021) include the assets manager by the Blue Current division of Edge ($450M) as well as those managed by Edge but not by the Blue Current division. All employees who work within the Blue Current division of Edge may also manage assets for Edge outside of the Blue Current division. The firm's list of composite descriptions and broad distribution pooled funds is available upon request. GIPS® is a registered trademark of CFA Institute. CFA Institute does not endorse or promote this organization, nor does it warrant the accuracy or quality of the content contained herein.

Disclosure and Risk Summary

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The information contained in this document does not constitute an offer to sell any securities nor a solicitation to purchase any securities. Index returns reflect the reinvestment of dividends.

PAST PERFORMANCE CANNOT BE CONSTRUED AS AN INDICATOR OF FUTURE RESULTS BECAUSE OF, AMONG OTHER THINGS, POSSIBLE DIFFERENCES IN MARKET CONDITIONS, INVESTMENT STRATEGY, AND REGULATORY CLIMATE. THERE IS NO ASSURANCE THAT THE FUND WILL ACHIEVE ITS INVESTMENT OBJECTIVE. INDEX INFORMATION (I) IS INCLUDED MERELY TO SHOW THE GENERAL TREND IN THE EQUITY MARKETS FOR THE PERIODS INDICATED AND IS NOT INTENDED TO IMPLY THAT THE FUND'S PORTFOLIO WILL BE SIMILAR TO THE INDICES IN EITHER COMPOSITION OR RISK AND (II) HAS BEEN OBTAINED FROM SOURCES BELIEVED TO BE ACCURATE.