Blue Current

BLUE CURRENT ASSET MANAGEMENT

Global Dividend Growth SMA

International Dividend Growth SMA

2023 – Q4 Quarterly Letter

Blue Current SMA Strategy

Q4 2023

Dear Investors,

The Blue Current Global Dividend Strategy composite returned +8.9% (net) during the fourth quarter of 2023, improving the trailing one-year return to +14.0% (net). In comparison, the MSCI World High Dividend Yield Net Index returned +7.0% for the quarter and +9.1% for the trailing one year. Results are shown net of a 1% fee.

The Blue Current International Dividend Strategy composite returned +8.0% (net) during the fourth quarter of 2023, improving the trailing one-year return to +17.7% (net). In comparison, the MSCI EAFE Value Net Index returned +8.2% for the quarter and +19.0% 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.

HOW MUCH IS TOO MUCH?

Three months into the US government's 2024 fiscal year, the interest paid by the US government on its outstanding debt has totaled $288 billion, an increase of nearly $80 billion against the comparable three-month period in fiscal year 2023. For the full 2024 fiscal year, the interest expense is expected to be nearly $800 billion, which is about the size of the federal defense budget and roughly 70% higher than it was in fiscal year 2022. While part of the increase can be explained by higher interest rates in 2022 and 2023, much of the increase can be attributed to the rising level of national debt, currently at $34 trillion. The country's federal debt is rapidly accelerating due to an unprecedented level of spending by our elected leaders in DC. Based on current US government forecasts, the federal deficit is expected to swell to $1.85 trillion in fiscal year 2024! To make matters worse, these statistics are occurring at a time when the US economy is humming with robust GDP growth and unemployment hovering near 50-year lows. What is to happen to our national debt when the next financial crisis surfaces or when the US is asked to engage not in a proxy war but rather in a full military conflict with a formidable opponent? This issue is not receiving the attention it deserves in DC or from the investing public.

We all could guess how and when the proverbial bill will finally come due, but it is becoming impossible to argue against anything other than a colossal challenge for the generations to come. Adding to the fiscal hole, the two leading presidential candidates are not fiscal conservatives, as both racked up sizable debt increases while in charge of the country. Both political parties seem to be content to sling mud at one another rather than focus on the challenging fiscal condition. At some point (and it may be now), the numbers become so staggering that any austerity plan, if one were ever to be presented, will not have the teeth to address the size of the problem, or the plan would be unpassable from the start, suffering from the lack of political support. We are on a very precarious road that continues to go unchecked by our leaders in DC.

Fortunately for politicians, the US economy remains one of the bright spots in the world, at least for now. Announced this past Friday, Q4 US GDP rang the bell at a very healthy 3.3% rate, down from the blistering 5% reported growth in the third quarter and capping a very strong (yet unexpected) year of growth. Also surprising is that consumer spending increased, growing 0.7% in December, and was solid across both goods and services. Entering 2024, the consumer remains the biggest unknown, as there is ample evidence to suggest that 2023 may be the high point of consumer health and that investors should expect a tougher spending environment in 2024. Average credit card debt per household stands at $9,300 and is at record levels while, delinquencies (balances more than 30 days past due) are climbing and are approaching pre-pandemic levels. Credit card companies (like Discover) are reporting their highest charge-off rates in more than a decade. As has been the case in recent years, the consumers' fiscal health looks very different from one income bracket to another, making broad conclusions more challenging. We liquidated our exposures to credit card companies in 2023 and have been very selective in our consumer exposures, relying on brands that compete on price (Walmart) and on the higher-end consumer.

While consumer spending may be peaking, manufacturing activity was sluggish for all of 2023. Higher inflation combined with elevated levels of production in 2022 created a manufacturing soft patch, but there are some signs that manufacturing activity is poised to accelerate in 2024. Just released, the US business activity index expanded in January and was led by strengthening order books, and the Purchasing Managers' Index also appears to be rebounding after remaining below the 50 threshold for several months. Also contributing to a possible rebound, corporate executives are speaking less about supply chain challenges and are more focused on inventory rebalancing and restocking. Overall, the information suggests that the US economy will continue to grow in 2024, but the Fed will need to believe that inflation is finally in the bottle and there is support for reducing short-term rates.

Our other region of focus, Western Europe, is expected to see economic conditions weaken in 2024. Peeling the onion, the region's largest economy, Germany, continues to struggle due to imposed fiscal restrictions, lack of access to cheap energy, and a reeling auto sector that continues to lose market share in China to local upstarts, namely BYD and NIO. German GDP growth is expected to be between 0.5% and 1.0% in 2024. France is expected to perform slightly better than Germany in 2024 but is expected to struggle under the weight of its own fiscal deficits and imposed austerity. France's manufacturing data continues to suggest weakness ahead. Unexpectantly, Southern Europe, led by Spain, is expected to have the strongest economic growth in the region in 2024. Spain has successfully expanded its workforce, reduced unemployment, and raised the minimum wage by a whopping 50% over the prior five years. Tourism has also revived with visitors topping 2019 levels. Other popular countries, including Italy and Greece, continue to benefit from the globe's insatiable appetite for travel, although we are hearing more stories of frustrated residents being limited in their local entertainment options due to price gouging. When taken together, we expect eurozone economic growth to avoid recession, but the overall economic backdrop remains muted except for Southern Europe. We expect the European Central Bank to ease rates with more conviction than what may be available in the United States.

We have received more questions about our exposure to Japan this year than we have in the prior ten years combined. There are some interesting economic and political trends occurring in Japan that make the island country more interesting from a macro perspective, but it could be that investors are ahead of themselves. After decades of fighting deflation, Japan's core inflation measures have been solidly above 2% since the early part of 2022 and remain elevated through the latest print. Inflation is a double-edged sword, especially for a country with one of the oldest populations in the developed world and one of the highest federal debt burdens – Japan's debt to GDP ratio is a whopping 226%! Equity investors are cheering the inflation reports as it has injected earnings growth into what has been an ailing local equity market for decades. Japan's citizens have been quite content to park their life savings in cash while prices steadily declined year after year, providing them with purchasing power without their having to take risk. Conditions are different today, and cash is finding a new home in Japanese equities as investors seek inflation protection for the first time in a long time. No wonder the Central Bank has been more dovish than its developed-market peers. As a result, Japanese companies are lifting prices and investors are seeing margin expansion and rates of growth that are unfamiliar. To help the consumer, workers are finally getting meaningful wage increases, and that incremental discretionary capital is being spent. While the backdrop is good for some, the Central Bank must wonder how they are going to refinance maturing debt that was previously issued with negative interest rates. Politicians are in a tough bind with no easy way out. Much of that decision depends on whether Japan returns to its former heydays of the 1980s or to the deflationary spiral of the recent past. Time will tell, but Japan may be just a trade and not a renewed secular growth story.

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 information technology sector was the strongest contributor to quarterly performance (returning +29.5% in Q4 / contributing 3.8%). The sector represents approximately 14% of capital. Other top sectors include financials (+13.0% / contributing 1.8%) and industrials (+14.8% / contributing 1.7%). The largest detractors by sector include energy (returning -3.8% / detracting 0.4%), materials (returning +5.1% / contributing 0.3%), and real estate (returning +19.6% / contributing 0.3%).

INTERNATIONAL SMA

The industrials sector was the strongest contributor to quarterly performance (returning +12.7% in Q4 / contributing 2.9%). The sector represents approximately 23% of capital. Other top sectors include technology (+16.9% / contributing 2.4%) and financials (+9.9% / contributing 1.3%). The largest detractors by sector include healthcare (returning -0.6% / not significant), energy (returning +2.2% / contributing 0.2%), and consumer discretionary (returning +10.7% / contributing 0.5%).

Individual Contributors:

GLOBAL	bps	INTERNATIONAL	bps
CONTRIBUTORS		**CONTRIBUTORS**	
BROADCOM INC	119	DHL AG	88
MICROSOFT CORP	81	RELX PLC	71
QUALCOMM INC	78	DANONE	68
BE SEMI	70	DEUTSCHE TELECOM	68
DICK'S SPORTING GOODS INC	60	HITACHI	64
DETRACTORS		**DETRACTORS**	
AHOLD DELHAIZE	-13	ASTRAZENECA	-2
YARA INTERNATIONAL ASA	-15	DR ING PORSCHE	-12
BP PLC	-23	AHOLD DELHAIZE	-19
SANOFI	-23	BP PLC	-22
SCHLUMBERGER LTD	-26	SANOFI	-29

PORTFOLIO ACTIVITY:

BUYS:

Dick’s Sporting Goods (Global SMA): With the consolidation of the retail sporting goods industry, Dick’s stands out as a winner in a category that historically generates above-average growth rates. The brand has a loyal following, and consumers still shop for sporting equipment and leisure wear in person, driving foot traffic to the company’s 870 store locations. The company's sales per square foot remains one of the best in retail. The company's recent weakness due to inventory shrink provided us a great opportunity to initiate a position.

SELLS:

During the quarter, we sold several positions with investment losses to offset previously taken gains. We have always actively managed the portfolio to maximize after-tax returns for our investors. This behavior will increase the portfolio’s turnover but should produce a more tax-effective return than if we had taken no actions.

INVESTMENT OUTLOOK

Putting aside a left-tail geopolitical event, the economic soft landing once thought impossible continues to look like the base case for the United States in 2024. Everything is going in the Fed’s direction, opening the door for lower interest rates during the first half of the year. We are skeptical that the Fed will deliver five to six interest rate cuts, but the exact number of cuts matters much less than their simply starting the quantitative easing process, as investors will always extend their time period. The United States will likely be the best house on the block again in 2024, with Europe also skirting a textbook recession but possessing growth low enough that it doesn’t feel that great. Japan will be the most interesting country in the developed world to monitor – will growth stall, returning to pre-pandemic levels, or will wage growth and dovish policies be enough to keep the party going longer?

Where 2024 may be different from the prior year is that we do believe that returns will be less beta-driven and more dependent on fund managers identifying interesting stories that still have an opportunity for multiple expansion and earnings growth in a year when there will be fewer economic tailwinds. Economic growth will be lower in just about every region, the exception being China, which could stimulate improved economic output, but investors may not care, as the country is un-investable for many. When we scan our investment universe, European stocks are far and away cheaper than those in the other major regions, materially cheaper than in the US, and more attractive than in Japan, which has really run over the past two years. Despite the valuation gap, we are being much more selective in what we own across Europe, and you may see us own fewer European positions but increase our ownership stake in high-conviction ideas with secular growth stories.

Our technology investments have been tremendous contributors to the portfolio; these names include Microsoft, Broadcom, Qualcomm, BE Semiconductor, and others. As a result, we have reduced our model weights in these names (except Qualcomm) for new capital and have modestly trimmed several positions that have well outgrown their initial model weights for existing clients. We continue to look for other ideas within technology, but candidly, there is very little value left in the space for investors, and we do not wish to chase high multiples or invest in lower-quality ideas with depressed multiples. To offset the lack of attractively priced technology stocks, we are finding good prospects in healthcare, select consumer areas, staples (after a year of underperformance), and energy.

We will also manage a more concentrated portfolio, with 35 or so ideas in our global portfolio and fewer than 30 ideas in the international portfolio. Given my comments about the outlook for European economic growth, you may not be interested in an internationally focused (ex. US) separately managed account, but we will remind our readers that our dedicated international strategy outperformed our global and US-dedicated strategies in 2023. While we may not be excited about investing in a broad European index, we can easily identify 30 multinational businesses with exposure to high-growth industries and countries that are not based in the United States but rather in England, France, the Netherlands, etc. Some of our best performers in 2023 were based outside the United States, and these names include BE Semiconductor, Danone, Relx, and Allianz.

No matter the environment, we will continue to own a curated portfolio of high-quality businesses with strong balance sheets, ample free cash flow, and a growing dividend that will help investors preserve their purchasing power, even if inflation continues to be concerning in 2024.

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
2022	-8.48%	-9.39%	-4.74%	-18.14%	19.76%	17.40%	20.72%	0.45%	128	$219	$413

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 Blue Current Global Dividend Strategy 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 2022. 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 Strategy Composite has had a performance examination for the periods January 2009 to December 2022. 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 2022. 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 $5.2B (as of December 31, 2022) include the assets manager by the Blue Current division of Edge ($413M) 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

The opinions expressed herein are those of Edge Capital Group, LLC, and the report is not meant as legal, tax, or financial advice. You should consult your own professional advisors as to the legal, tax, financial, or other matters relevant to the suitability of investing. The external data presented in this report have been obtained from independent sources (as noted) and are believed to be accurate, but no independent verification has been made and accuracy is not guaranteed. The information contained in this report is not intended to address the needs of any particular investor.

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.