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INVESTMENT COUNSEL
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AN INTERVIEW WITH AARON FORESMAN, CFA®

MANAGED INCOME PORTFOLIO MANAGER

SENIOR ANALYST – INFORMATION TECHNOLOGY

JOINED CRAWFORD IN 2014

Interviewer: From what I understand, you are the architect of Crawford's Managed Income strategy. Will you talk a little bit about how you recognized the need for the strategy in the first place?

Aaron Foresman, CFA®: It started about ten years ago in trying to solve a personal, real-world problem for my father. He was looking to generate more income in retirement. At that time, the global economy was still healing from the global financial crisis, and the yield on 10-Year Treasury Notes had dropped below 2%. Of course, we didn't know what the next ten years were going to look like, but during that period, people were having a very hard time generating income from traditional stock/bond portfolios. That was when I started thinking about the process. I started wondering how we could supplement traditional balanced accounts with other asset categories to generate both diversification and income at the same time. That's the process – the nexus – of the Managed Income strategy.

I: When and how did you launch the strategy?

AF: I started with my IRA, and that's really where I began building the portfolio out. The track record goes back to 2014, the year I joined Crawford. I was hired primarily to contribute to Crawford's Dividend Growth strategy, but I remember requesting approval to work on this in the background. So I was just doing my work, and not really talking about it very much. And then one day, I walked into John Crawford IV's office and he said, "Listen, we're looking for some additional offerings, and we thought that it might be a good idea to take your strategy and try to do something with it." So, we got to work defining the strategy in late 2014, and we started offering it to clients in 2015.

I: It's really neat that you have such a personal connection to the strategy and its origination. What gave you the confidence that it would fill a need in the investment landscape?

AF: At Crawford, the support of the team and having research analysts dedicated to all of the sectors has been key. The moral of the story is "find a need and fill it." It's something that's been really significant for me, and honestly, I don't know of too many organizations that would hire somebody and launch a product under their stewardship in under six months. I think all of that says a lot about Crawford and their willingness to try new things, get behind their people, and invest in them. In fact, I am still significantly personally invested in the strategy through my IRA.

I: Could you elaborate on the types of clients that you see this strategy benefitting?

AF: We seek to appeal to a number of different constituencies that are attracted to the strategy. Most of our initial clients needed to generate higher levels of income in retirement, but a pleasant surprise is that, we've since attracted a number of endowment and foundation interests who are drawn the strategy's specific investment style. These organizations can handle a little bit of volatility but are also attracted to the high level of income generation that the strategy offers, as many need to support spending needs. We feel our strategy has ended up working really well to generate income for institutional clients and private clients alike.

I: Could you talk about the strategy's risk management framework and how it might differ from other Crawford strategies?

AF: We're currently generating close to 6% in current income. We have identified four major risk categories including interest rate risk, energy price risk, stock market risk, and credit risk. What we've found is that we can actually offset individual, security-specific risks against one another. Through a process of disaggregation and analysis of the various risks associated with specific holdings in our portfolio, we seek to mitigate risk through diversification and balancing. We try to offset as much of the portfolio risk against itself as possible. For instance, we may control for interest rate sensitivity by offsetting Utilities and REITs, which are traditionally interest rate sensitive (positively correlated with bond prices), with Regional Banks, which tend to be interest rate sensitive in the other way (negatively correlated with bond prices). What we end up with are two sets of securities which provide handsome yield and possess opposite behavior patterns with regard to the factor of interest rates. In addition, concerning credit risk, energy risk, and market risk, we utilize a quantitative model and work to mitigate as much risk as possible, while seeking to generate the income that we need. So, in portfolio construction, Crawford's Managed Income strategy is more mechanical than, perhaps, other Crawford strategies.

I: How do quality and value work together in the Managed Income portfolio and what metrics do you use to quantify those things?

AF: With all things being relative, we try to find what we believe to be the highest-quality securities available in the higher-income subsets of the capital markets. If that sounds carefully crafted, it is. We want people to know that in some cases, we're dealing with more obscure pockets of the capital markets – we hold securities that aren't typically held in some of our other strategies. In many other cases, however, we have absolute quality derived from Consumer Staples, Utilities, Industrials, and other traditional high-quality stock holdings. The kinds of companies that tend to issue higher-yielding bonds or preferred shares may, at times, have more leverage on their balance sheets. However, we do emphasize these higher quality sectors to the extent that the yield is available. Again, through our risk model we accept lower credit risk, lower market risk, lower energy risk, and lower price risk. And as far as value goes, we use traditional valuation metrics. The way we look at value is relative to a company's peers in its sector, relative to its past history, and then, of course, we spend some time looking at yield or income spreads to other available asset classes. In doing this, we attempt to keep a broad understanding of what might be most attractive on a valuation or yield basis across our multi-asset opportunity set.