An Attractive In-Plan Income Solution: The Managed Income Strategy

CRAWFORD
INVESTMENT COUNSEL
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Defined contribution plans, more specifically 401(k) plans, have become the primary source of retirement savings for most Americans today. Workers are contributing more money than ever before, and employer-sponsored retirement savings plans represent over one-third of household financial assets. The advantages of these plans include tax-advantaged contributions and qualified, tax-free growth. With the importance and prevalence of workplace retirement savings plans increasing, along with the fact that plans are now providing investment options into the post-employment phase, the Department of Labor has made some recent policy shifts. These changes have important implications for both plan participants and sponsors. Specifically, there is a movement toward providing more insight into income and lifetime annuity assumptions to inform participants as to how their assets can produce income in retirement.

In order to implement Section 203 of the Setting Every Community Up for Retirement Enhancement (SECURE) Act, the Department of Labor (DOL) published an interim final rule effective September 18, 2021. The rule requires plan administrators of ERISA-defined contribution plans to express a participant's current account balance in two ways: as a single life annuity income stream and as a qualified joint and survivor annuity income stream. The purpose of the regulation is to help participants better understand how the amount of money they have saved so far converts into an estimated monthly payment for the rest of their lives and how it impacts their retirement planning. This rule is intended to help employees in defined contribution plans determine their readiness to retire and places great emphasis on lifetime income. These developments represent the most recent phase of the American corporation's evolution from defined benefit retirement plans (pension plans) toward defined contribution plans (401(k) plans), as 401(k) providers will now need to begin thinking about providing true lifetime income options for employees.

In today's world of ultra-low interest rates and record-high stock prices, retirees who remain in employer-sponsored plans will be seeking safer options that generate acceptable income, and plan sponsors will be required to comply by expanding their investment options. Generating income and attractive total investment return is what Crawford Investment Counsel (Crawford) has been focused on since day one. Crawford has a 40+ year heritage of providing clients with attractive total returns, reduced volatility, and income. We believe this is accomplished by investing in higher-quality, income-producing securities, being sensitive to valuation, and maintaining a longer-term investment horizon. We also believe that active management can provide an investment edge and help control risk.

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We believe that when an investor needs to meet spending needs in retirement, both income generation and preservation of capital are critical to attaining a successful outcome. If spending needs are not met through income and capital appreciation, withdrawals can begin to encroach on the long-term principal value of a portfolio. At the forefront of any defined-contribution investor's mind should be both a portfolio's ability to retain and grow income over time and the threat of principal erosion or permanent loss of capital. This question becomes especially crucial as retirement gets closer.

Since 2014, the Crawford Managed Income Strategy has offered its investors protection against both principal erosion and permanent loss of capital, while consistently generating over 5% yield for its investors. For a strategy of this nature, income is the primary investment objective. This is an actively managed portfolio that emphasizes steady and consistent income generation (yield) throughout market cycles. Volatility is part of investing, but this strategy seeks to mitigate the volatility of income by selecting higher-quality securities from the higher-yielding subsets of the capital markets. Steady income, even during adverse markets, protects investors while giving them the confidence to stay with their investment program over the long term.

In the Managed Income Strategy, we continually search for what we believe to be the highest quality securities available in the higher income subsets of the capital markets, while managing the portfolio to strike a favorable balance between current and sustainable income and risk mitigation. We believe that investors who are looking for current income in a lower-yielding environment often times seek yield by investing in lower-quality, high-volatility securities. Although those type of securities may sometimes be higher-yielding, many of these investors make tactical shifts based on bets about which direction certain macroeconomic variables will move, such as interest rates or energy prices. Crawford believes this is a poor risk/reward tradeoff, and instead builds a portfolio that pursues lower volatility through high-quality securities that aim to be risk-controlled with regard to macroeconomic variables. By focusing on risk control, the firm is able to build a portfolio with higher expected yield than the market, while avoiding the volatility typically associated with high-yield investing.

The Managed Income Strategy invests in dividend-paying stocks, real estate, energy infrastructure, preferred equity, and corporate bonds. The variety of income-producing asset classes utilized by the strategy allows its investors the opportunity to achieve greater diversification and in-turn, greater risk mitigation. 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, in this portfolio 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 mitigate risk through diversification and balancing.

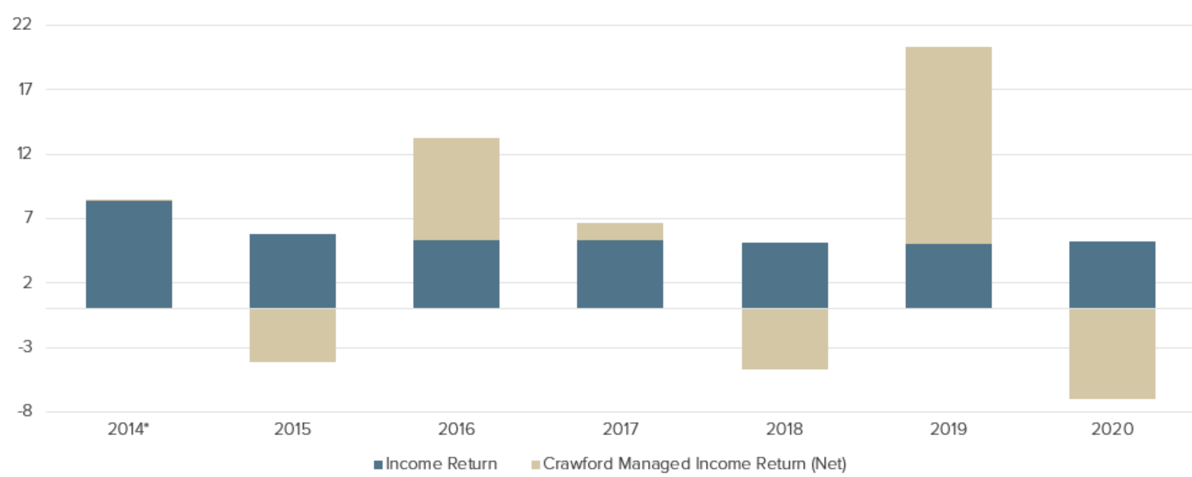
Risk Management

Portfolio and Security Risk Evaluation

- Equity Market Risk
- Interest Rate Risk
- Energy/Oil Price Risk
- Credit Risk

Essentially, we attempt to offset as much of the portfolio risk against itself as possible. For instance, we may control for interest rate sensitivity by offsetting Utilities with Regional Banks; Utilities are traditionally interest rate sensitive while Regional Banks tend to be interest rate sensitive in the other way. What you end up with is two sets of securities that 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 generating the income that we need.

Income Contribution to Total Return



	2014	2015	2016	2017	2018	2019	2020
Crawford Managed Income Return (Net)	8.47	-4.10	13.23	6.65	-4.69	20.34	-6.98
Average Income Contribution to Total Return	8.35	5.83	5.33	5.31	5.11	5.03	5.25

Source: eVestment, Factset.

**Only 9 months of performance in 2014. Average Income Contribution to Total Return taken as an average of the reported monthly dividend yields during a calendar year. Past performance is not indicative of future results. The composite returns are shown as supplemental information to the Managed Income GIPS Composite Report which is located on the last page.*

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We believe the goal of a successful 401(k) program should be to maintain portfolios with a balance between current yield, income quality (consistency), income growth, interest rate exposure, and risk. Since its inception, the Crawford Managed Income Strategy has done just this, while consistently providing a yield over of 5% for its investors.* For 401(k) participants seeking income, the Crawford Managed Income Strategy is an attractive solution, which can exist as a standalone strategy, part of a multi-managed daily valued income model, or as a complement to a more traditional mix of stocks and bonds. In today's environment of low interest rates, the current yield that this strategy offers its investors certainly stands out.

*Using average annual quarterly yield since product inception.

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Managed Income Composite
GIPS Composite Report

					Composite				NASDAQ U.S. Multi-Asset Diversified Income Index	
Year	Firm Assets ($ Millions)	Composite Assets ($ Millions)	% Of Non-fee paying accounts	# Of Accounts	Gross Return	Net Return	3-Year Standard Deviation	Internal Dispersion	Return	3-Year Standard Deviation
2020	$7,111	$182	1%	147	-6.22%	-6.98%	18.20%	0.8%	-13.99%	22.59%
2019	$6,779	$180	1%	160	21.31%	20.34%	7.13%	0.3%	19.15%	7.93%
2018	$5,655	$122	1%	151	-3.98%	-4.69%	6.74%	0.3%	-5.28%	7.94%
2017	$5,901	$89	2%	135	7.57%	6.65%	6.69%	0.3%	6.12%	8.19%
2016	$5,044	$59	1%	133	14.49%	13.23%	N.A.	0.5%	12.14%	N.A.
2015	$4,149	$41	2%	87	-3.20%	-4.10%	N.A.	0.0%	-7.00%	N.A.
2014	$4,610	$0.4	36%	5 Or Fewer	9.28%*	8.47%*	N.A.	N/A	8.90%	N.A.

N/A - Information is not statistically meaningful due to an insufficient number of portfolios in the composite for the entire year.
N.A. - 3-year standard deviation is not shown because 36 monthly returns are not available.
* Only 9 months worth of performance in 2014

Crawford Investment Counsel claims compliance with the Global investment Performance Standards (GIPS®) and has prepared and presented this report in compliance with the GIPS standards. Crawford Investment Counsel has been independently verified for the periods January 1, 1981 through December 31, 2020. The verification report(s) is/are available upon request. A firm that claims compliance with the GIPS standards must establish policies and procedure 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. Verification does not provide assurance on the accuracy of any specific performance report.

Crawford Investment Counsel, Inc. is an independent registered investment adviser with the Securities and Exchange Commission.

The Managed Income Composite contains all discretionary, taxable and tax-exempt, managed income accounts with a minimum account size of $100 thousand. An account managed in the managed income strategy style focuses on the debt, equity and hybrid securities of companies in the higher yielding sectors of the capital markets.

For comparison purposes the composite is measured against the NASDAQ U.S. Multi-Asset Diversified Income Index. The NASDAQ U.S. Multi-Asset Diversified Income Index is designed to provide exposure to multiple asset segments, each selected to result in a consistent and high yield for the index. The Index is comprised of securities classified as U.S. equities, U.S. Real-Estate Investment Trusts (REITs), U.S. preferred securities, U.S. master-limited partnerships (MLPs) and a high yield corporate debt Exchange-Traded Fund (ETF). As of September 30, 2017, the benchmark was changed retroactively from the composite inception date. The new benchmark better reflects the manager's investment strategy, and was originally unavailable to the firm. The previous benchmark was a blend consisting of 35% iShares Core High Dividend, 30% iShares U.S. Preferred Stock, 7.5% iShares Mortgage Real Estate Capped ETF, 7.5% Vanguard REIT Index Fund, 7.5% iShares iBoxx $ High Yield Corporate Bond, 7.5% Alerian Energy Infrastructure ETF and 5% Market Vectors BDC Income ETF, rebalanced quarterly. Prior to February 1, 2016, the blended benchmark consisted of 40% iShares Core High Dividend, 25% iShares U.S. Preferred Stock, 10% iShares Mortgage Real Estate Capped ETF, 10% Vanguard REIT Index Fund, 10% iShares iBoxx $ High Yield Corporate Bond and 5% Market Vectors BDC Income ETF, rebalanced quarterly.

Results are based on discretionary accounts under management, including those accounts no longer with the firm. 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 is calculated based on the actual fees experienced by the client. Certain accounts may not be charged commissions by their broker. Prior to April 1, 2015, net of fee performance was calculated using a highest management fee of 1.00%, applied quarterly. From March 31, 2014, through November 30, 2014, performance represents the track record of the portfolio manager prior to managing the strategy at Crawford Investment Counsel. The 3-year annualized standard deviation is not shown presented because 36 monthly returns are not available. The annual composite dispersion presented is an asset weighted standard deviation calculated for the accounts in the composite the entire year. Gross returns are used to calculate the internal dispersion and 3-yr annualized standard deviation. Past performance is not necessarily indicative of future results.

The investment management fee schedule for the composite is 1.00% on the first $3 million; and 0.50% on the balance. Actual investment advisory fees incurred by clients may vary.

The inception date of the Managed Income Composite is April 1, 2014. The Managed Income Composite was created in September of 2014. A complete list of composite descriptions is available upon request. Policies for valuing investments, calculating performance, and preparing GIPS Reports are available upon request.