Neutralizing Interest Rate Sensitivity: The Crawford Managed Income Strategy

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Given the potential for rising interest rates in the year ahead, the Crawford Managed Income Strategy is a compelling option for 401k participants seeking interest rate risk protection and high current income. The strategy 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. Since its inception in 2014, the strategy has offered its investors protection against both principal erosion and permanent loss of capital, while consistently generating over 5% yield by purchasing a mix of dividend-paying common stocks, preferred equity, energy infrastructure c-corporations, real estate investment trusts, and corporate bonds. This is an actively managed portfolio that emphasizes steady income generation (yield) through market cycles, regardless of the volatility inherent in the capital markets. For a strategy of this nature, income is the primary investment objective, and we mitigate risk through both quality and diversification.

The Role of Quality. We have found that investors who are looking for current income in a lower-yielding environment oftentimes seek yield by investing in lower-quality, higher-volatility securities. We believe this is a poor risk/reward tradeoff and instead have built a portfolio that pursues lower volatility through high-quality securities and aims to be risk-controlled with regard to macroeconomic variables.

The Role of Diversification. The portfolio is focused yet well-diversified across 30-40 holdings in all market capitalization spectrums. 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. Crawford has identified four major risk categories inherent to the higher income subsets of the capital markets: interest rate risk, energy price risk, stock market risk, and credit risk. Through a process of disaggregation and analysis of the various risks associated with specific holdings in our portfolio, Crawford mitigates risk through diversification and balancing. Today, we address the forthcoming rising interest rate environment.

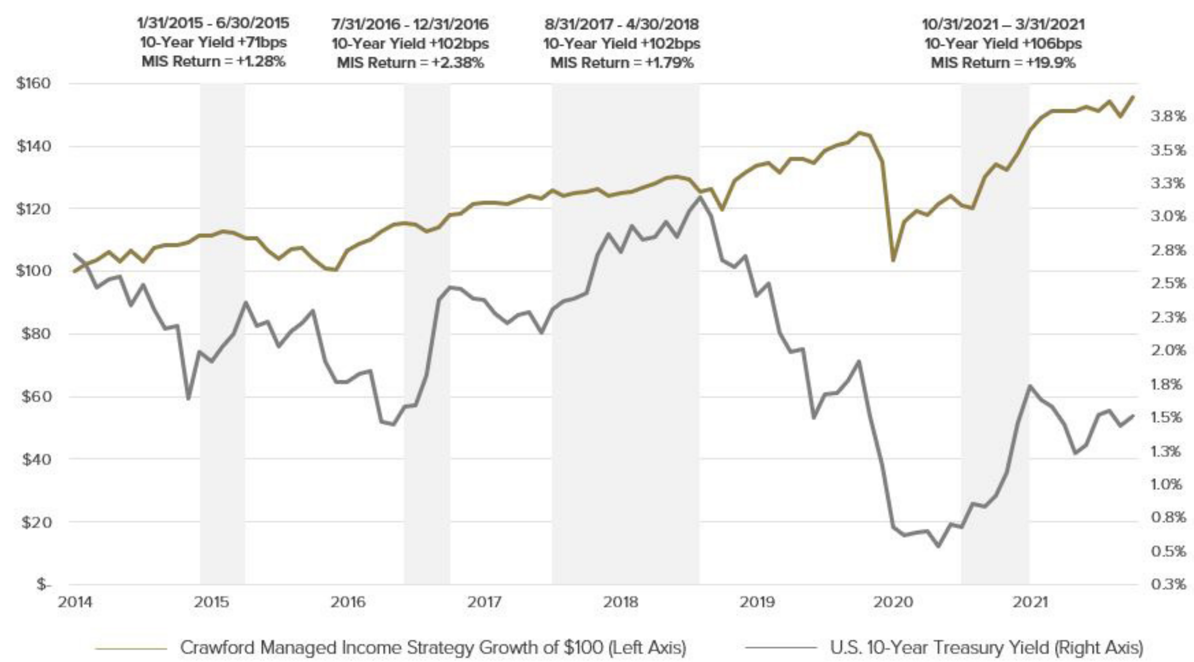
The Managed Income Strategy Today. The Federal Reserve's call for "transitory" inflation has been challenged by much more persistent and elevated inflation than expected. This dynamic has left them behind the curve and forced a dramatic policy shift. The end of quantitative easing in March is widely expected to be followed by a series of Federal Funds Rate increases as we move through the year.

Neutralizing Interest Rate Sensitivity

You might wonder how the Managed Income Strategy will fare in the environment to come. Before proceeding, we'll note that as we look to the future we don't believe our ability to predict changes in interest rates is a sustainable, value-added component of our management process. Instead, we look to the opportunities that the markets provide within our investment universe and attempt to construct a well-balanced, risk-managed portfolio.

Since the strategy's inception in May of 2014, there have been four time frames that we can identify as "rising rate periods," defined by a greater than a 50bps increase in the U.S. Treasury 10-year note yield to maturity. The chart below shows that while rising rates may be a headwind to the strategy we have thus far managed to generate positive total returns in each of these rising rate periods.

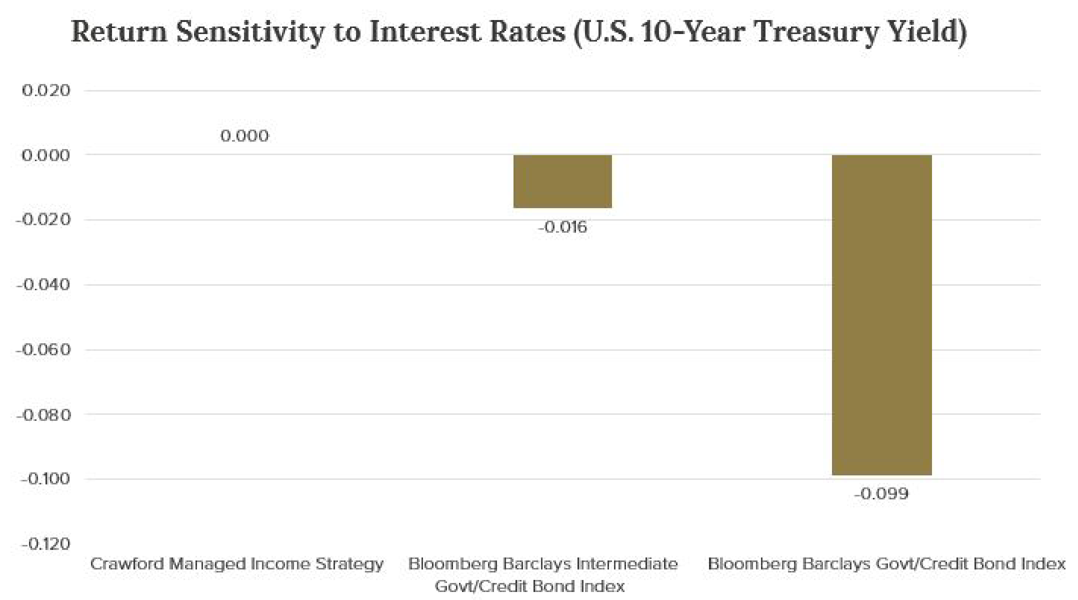
Crawford Managed Income Strategy Performance During Periods of Rising Rates



Source: Crawford, eVestment
Time period: April 1, 2014 through December 31, 2021. Data is net of fees. Past performance is not indicative of future results. The composite returns are shown as supplemental information to the Managed Income composite disclosures which are located on the last page.

While we can calculate the duration of our fixed income holdings, we are only able to provide an estimate for the complete portfolio due to the substantial position in equities. We can, however, calculate the overall interest sensitivity of the portfolio to changes in interest rates and compare the results to the same measure for several popular fixed income indices. In this case, we can confidently show that since inception, the portfolio has exhibited interest rate sensitivity similar to the Barclays Intermediate Govt/Credit Index and much less than the Barclays Aggregate Government Credit Index. This is likely less sensitive than most investors would expect from an income strategy.

Neutralizing Interest Rate Sensitivity



Source: Crawford, eVestment
Time period: April 1, 2014 through December 31, 2021. Data is net of fees. Past performance is not indicative of future results. The composite returns are shown as supplemental information to the Managed Income composite disclosures which are located on the last page.

In an effort to protect our investors, we are seeking to access yield without taking on a lot of duration (interest-rate sensitivity). This is accomplished through security selection and portfolio management. By naturally offsetting longer duration assets with income-producing, asset-sensitive positions, we are able to control the portfolio's aggregate sensitivity to interest rates. To do so we utilize a proprietary, internally developed, risk-management methodology that carefully considers each position's contribution to the portfolio's overall risk characteristics. Our goal remains to provide yield and preserve capital, and at this time we are attempting to do what we can to continue insulating the portfolio from the potentially negative outcome associated with rising interest rates.

Conclusion. For clients seeking income and looking to position themselves for the environment ahead, the Crawford Managed Income Strategy is an attractive alternative. We have built a portfolio with a higher expected yield than the market while mitigating much of the volatility typically associated with the higher-yielding subsets of the capital markets through security selection and careful portfolio construction.

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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.