Blue Current

BLUE CURRENT GLOBAL DIVIDEND

2020 – Q3 Quarterly Letter

Blue Current SMA Strategy

Q3 2020

Dear Investors:

The Blue Current Global Dividend Strategy composite returned +5.8% (net) during the third quarter, improving full-year performance to -7.5% (net) through September 30. We remind investors that our strategy is not managed to any specific equity index. Instead, we focus on identifying companies that will pay a stable and increasing dividend and generate an attractive total return for our investors. For comparison, the MSCI World High Dividend Yield Net Index returned +3.1% for the quarter and -10.5% for the year-to-date period. Composite returns are shown net of a 1% annualized fee, and individual returns may vary relative to composite performance.

CYCLICALITY OF OPTIMISM

In late July there were approximately 60k new diagnosed Covid-19 cases per day, a decline from previous levels experienced during the spring, inspiring confidence that perhaps the U.S. was getting ahead of the virus. As U.S. cases were declining, a second wave of the virus begin to escalate across our neighbors in Western Europe following a previous period in which the virus appeared to have stabilized. Unfortunately, and not surprisingly, the optimism has proven to be short-lived regardless of the region or the approach employed by local and national leaders to suppress the spread of the virus. At this juncture, reality is beginning to take hold that the only way to eradicate Covid-19 is the widespread deployment of a vaccine, which at the time of this letter still appears to be at least six months away for those who are not deemed “at risk.” If we can take any comfort in the smallest of victories, it is that in many countries mortality and hospitalization rates are not reacting to the rise in cases as earlier in the year.

Connecting those swings in human emotions with financial markets, we see a very similar and well understood pattern. Rising uncertainty has been correlated with investor preference for technology and defensive businesses that facilitate commerce from any location, while rising optimism has been correlated with cyclical sectors -- i.e., industrials, financials -- that benefit from a resumption of normalcy. Unfortunately for dividend investors, the year has been filled with long periods of uncertainty interrupted by brief periods of optimism. As a result, dividend- and value-focused strategies are still showing negative performance for the year, while growth-focused strategies rebounded quickly during the second quarter and are solidly profitable. The disparity between growth and value is about as wide as has ever been recorded, exceeding what was experienced leading into the 1999 technology bubble. Today’s reality is that companies that have proven to be “immune” to the virus are trading at rich valuations even when viewed using out-year earnings, while companies that are highly exposed to economic and consumer cyclicality are trading at attractive valuations but require utmost patience as volatility remains extreme. As we discussed in great detail in the second quarter letter, the strategy remains more highly exposed to category 2 and category 3 businesses that resemble the latter in our above example.

We reiterate our process underwrites businesses with at least a three-year investment horizon. We are focused on the earnings and cash flow generation of our businesses in 2023, weighted against the current valuations of those businesses in 2020. In some cases, the 2023 cash flow is being reflected in the 2020 valuation (Microsoft), but in other examples we believe there is a significant valuation discrepancy between how a business is being valued today and what we believe the business may be worth in 2023 in a post-Covid-19 environment. Medtronic is a great example of a business we believe is being valued on near-term earnings and not the long-term earnings potential of the business. Along with identifying mispriced

opportunities, we maintain our requirements that the company have a commitment to increasing its dividend and have an attractive dividend yield, historically 2% or higher.

The strategy's current exposures to the four categories are as follows:

Category 1 (winners in a pandemic): 27%

Category 2 (those marginally impacted by the virus): 41%

Category 3 (those materially impacted but with sufficient liquidity and brand equity to survive): 32%

Category 4 (those not likely to survive without significant financial help): 0%

Not surprisingly, the companies we have assigned to category 1 remain some of the best-performing investments in the portfolio this year (Microsoft, Abbott Labs, Taiwan Semiconductor, Reckitt Benckiser), while the value of our category 3 businesses is still down materially year-to-date (JP Morgan, Essilor-Luxottica, Coca-Cola). As the global economy emerges from the pandemic in 2021 and 2022, we expect these businesses will have a clearer line of sight to their prior earnings levels – perhaps even eclipsing them once expense rationalization occurs.

BLUE CURRENT PHILOSOPHY AND OBJECTIVES

The Blue Current investment team utilizes its knowledge of growing cash flow to invest in what we believe is a niche universe of high-quality, dividend-paying companies with sustainable business models and dividend policies. The primary objectives are to pay a stable and increasing dividend each quarter and to deliver attractive, long-term capital appreciation to investors.

The portfolio is concentrated and invests in 35 to 45 companies domiciled across developed markets that meet what we believe to be stringent quality requirements. We focus on companies that we believe have a history of rewarding shareholders and have the financial ability to continue to increase their dividends over time. We also focus on the future earnings potential of each company and strive to purchase those businesses when they are, in our opinion, trading at a discount to their true value.

PORTFOLIO COMMENTARY

The portfolio returned +5.8% (net) during the third quarter, continuing the rebound that began during the second quarter. Not surprising based on recent market preferences, the technology sector was the largest contributor to the third quarter return, contributing approximately 2.2%. The top performing position was Taiwan Semiconductor, which advanced +43% during the quarter. We have owned Taiwan Semiconductor since 2018 and believe it to be the premier semiconductor foundry company in the world. The company is well positioned to manufacture the next generation of semiconductors for 5G, artificial intelligence, online gaming, and all other applications that require the highest speeds and processing capabilities. Within the technology sector, Qualcomm was also a meaningful contributor, returning nearly +30% during the quarter. We have owned Qualcomm in the past and were fortunate to have reinvested in the company during the March sell-off.

Aside from the technology sector, the industrial and consumer staples sectors were also meaningful contributors during the quarter, adding approximately 1.3% each to the quarterly return. Within the industrials sector, Deutsche Post AG, the parent of DHL and a global competitor to UPS, returned +29%, and Carrier Global, a leader in global HVAC, returned +37%. Unilever was the top contributor within the consumer staples sector, returning +13% during the quarter. We have owned Deutsche Post AG and Unilever for several years, while we inherited Carrier Global from the deconsolidation of United Technologies (currently Raytheon Technologies).

The energy, utility, and real estate sectors were all laggards during the quarter, detracting slightly less than 1% from quarterly performance. With an average weight of 4.8% during the quarter, the portfolio's two energy investments continue to be Chevron and Kinder Morgan. We believe both will be long-term winners in the consolidation of the struggling energy sector. The two companies possess the strategic assets, the discipline in capital spending, and the balance sheets to survive a lower-for-longer energy price environment. Given its critical infrastructure footprint in delivering natural gas to key regions, we believe Kinder is uniquely positioned in a world that is increasingly dependent on cleaner fuel sources. Both companies are valued well below what we believe is a base-case share price and offer an attractive average dividend yield of 8%.

Through the third quarter, the portfolio's dividend growth rate is tracking flat to down low single-digits relative to the same nine-month period last year. If we separate the portfolio into its U.S. and international exposures, our U.S.-based companies as a group are on track to grow dividends at a mid-single-digit rate this year. This level of growth should be considered relative to the broader S&P index wherein dividend cash flow is expected to be down when compared to 2019. The dividend growth provided by our U.S.-based companies will be offset by a similar level of cash flow decline from our international investments. While we have been able to avoid dividend reductions in our existing portfolio companies, we have not been able to replace the cash flow from higher-yielding investments that were sold earlier in the year. For example, we liquidated Royal Dutch Shell in February, which at the time carried an approximate dividend yield of 7.5%. We have not been able to replace that level of cash flow given the current options available to us across our international universe without reducing our quality expectations. To help alleviate the potential decline in dividend cash flow for the year, we have made a few short-term investments which we expect will lift the portfolio's cash flow in November (e.g., investment in Verizon). At this time, we are hopeful that dividend cash flow for the full year 2020 will approximate what our investors earned in 2019, and we will provide an update with our full-year review in January.

Top 5 Contributors (Security/Contributors)*

- Taiwan Semiconductor: +100bps
- Qualcomm: +85bps
- Deutsche Post AG: +75bps
- Carrier Global: +55bps
- Abbott Laboratories: +40bps

Bottom 5 Contributors (Security/Contributors)*

- Kinder Morgan: -50bps
- Chevron: -40bps
- Cisco Systems: -40bps
- Allianz SE: -15bps
- Raytheon Technologies: -10bps

**Please contact Blue Current to obtain the calculation's methodology and a list of all holdings' contributions to the overall performance during the period. Contribution by security has been rounded to 5bps.*

INVESTMENT OUTLOOK

The portfolio continues to be largely exposed to the reopening of the global economy, which we expect to materialize in 2021 and 2022. While we have several positions exposed to the "stay-at-home" trade such as Microsoft, Home Depot, Unilever, Nestle, and Reckitt Benckiser, the majority of the portfolio is exposed to cyclical themes including improved consumer spending and increased mobility patterns. In September, investor confidence began to improve to the extent that companies previously out of favor, such as Coca-Cola, EssilorLuxottica, Medtronic, and American Express, began to see active investor interest. This enthusiasm for value and dividend-payers continued through the month and into the later weeks of October, a period during which the strategy performed above recent expectations. There was a broadening of investor interest into dividend-payers, financials, small-caps, and other areas that continue to be mis-priced in world not depressed by a pandemic. This trend persisted until global pessimism resumed in late October, with several large economic regions reconsidering lockdown protocols to curtail the recent surge in Covid-19 cases.

We expect the cyclicality of health and economic conditions to continue through the first half of 2021 when a vaccine is expected to be more broadly available. As always, financial markets will begin to price in a vaccine well before it is broadly available. Clarity on additional stimulus and what policy actions are on the near-term agenda for whichever political party assumes control of the U.S. government will also be supportive of higher equity prices. Many of these factors are considered "risks" at the moment but will transition to catalysts for dividend-payers and cyclical businesses in the early half of 2021. As always, we include our portfolio statistics at the closing of our investor update letter each quarter. Below, we highlight that the portfolio's forward price to earnings ratio is 17x with an anticipated 28% growth in earnings in 2021. This is as attractive a combination as we have observed in many years.

As of 9/30/2020, our portfolio stats were as follows:

Gross Dividend Yield: 2.7%
2021 Price / Earnings Ratio: 16.9x
2021 Expected Earnings Growth: 28.0%
Net Debt to EBITDA: 1.5x
International Exposure: 44%

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

Source: Blue Current Asset Management. See GIPS® disclosure at the end of this report.

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%	141	$206	$306

N.A.1 - Information is not statistically meaningful due to an insufficient number of portfolios in the composite for the entire year.
N.A.2 - The three-year annualized standard deviation measures the variability of the composite and the benchmark returns over the preceding 36-month period. The three-year annualized standard deviation is not presented for periods with less than 36 months of data.

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 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 an asset-weighted

standard deviation calculated for the accounts in the composite the entire year. Policies for valuing portfolios, calculating performance, and preparing compliant presentations 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 1607 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 Asset Management has been independently verified for the periods January 2009 to December 2018. Verification assesses whether (1) the firm has complied with all the composite construction requirements of the GIPS standards on a firm-wide basis and (2) the firm's policies and procedures are designed to calculate and present performance in compliance with the GIPS standards. The Blue Current Global Dividend composite has been examined for the periods January 2009 to December, 2017. 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 2017.
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 $3.65B (as of December 31, 2018) include the assets manager by the Blue Current division of Edge ($555M) 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 is available upon request.

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.