Blue Current

BLUE CURRENT ASSET MANAGEMENT

Global Dividend Growth SMA

International Dividend Growth SMA

2024 – Q1 Quarterly Letter

Blue Current SMA Strategy

2024 – Q1

Dear Investors,

The Blue Current Global Dividend Strategy composite returned +9.3% (net) during the first quarter of 2024, improving the trailing one-year return to +18.9% (net). In comparison, the MSCI World High Dividend Yield Net Index returned +5.5% for the quarter and +13.3% for the trailing one year. Results are shown net of a 1% fee.

The Blue Current International Dividend Strategy composite returned +3.7% (net) during the first quarter of 2024, improving the trailing one-year return to +11.8% (net). In comparison, the S&P International Dividend Aristocrats Net Index returned -1.1% for the quarter and +6.7% 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.

GLOBAL ADDICTION TO DEBT

One year ago, it was hard to find a market forecaster who was anything but dour on the outlook for the US economy in 2024; however, several months into 2024 the word recession is barely being uttered and even the most skeptical of the bunch are acknowledging that they had it wrong. Never underestimate the ability of the US consumer to spend, even during times of higher interest rates and prices. Continued record low unemployment (3.8% at last click) and higher wages have proven just enough to keep open the consumer's wallet and appetite for travel, dining out, and various services. Through the first quarter, US retail and food services are estimated to have increased 2% year over year, with March appearing to be the strongest quarter in the series (+4% year over year). Recent credit data does indicate that spending is getting long in the tooth, but as long as job prospects remain bright, it is hard to know whether we are anywhere close to a consumer retrenchment.

Rivaling the consumer, the US government also continues to spend money in 2024 - and at a rate that exceeds the comparable period in 2023. According to the Peter G. Peterson Foundation, through the first six months of FY24 (recall that the US government's fiscal year starts on October 1), total government spending equated to $3.3 trillion, exceeding the prior six-month period by $186 billion. Spending on interest expense, Social Security, Medicare, and defense (the largest buckets in the government budget) are all running ahead of the prior year. Fortunately, government revenue via tax collections is $140 billion higher than last year, partially offsetting the spending but not enough to keep the country from approaching the forecasted 100% Debt-to-GDP by year-end 2024. If reelected, President Biden has recently pledged to increase tax rates (both income and capital gains) on select income and wealth thresholds to help close the spending gap currently being widened by his own administration. Voters will have an opportunity to express their views in the upcoming November election.

While consumer and federal spending continue to inject liquidity into the US economy, other developed-market nations are also struggling to maintain a budget surplus despite the broad health of the global economy. Japan's prime minister, Fumio Kishida, is estimating a budget deficit of -3% (excluding payments on the country's national debt), which is higher than the goal due to stimulus and increased spending on lower-income households who are falling further behind due to inflation. Japan's government has also made a significant commitment to fund its national defense efforts, a goal that is increasingly under strain due to both budget limitations and the continued weakening of the yen. Both the United Kingdom and France are also expecting budget deficits in the 3%-5% range in FY24, as stimulus spending and other measures continue to outpace tax revenue. To add insult to injury, the European Commission recently met to “reevaluate” the Stability and Growth Pact (SGP) which required that EU members maintain budget deficits at 3% or better and that government debt not exceed 60% of GDP. The proposed revision to the SGP maintained the same 3%/60% rules but provided a three-to-four-year timeframe for members to achieve the targets. We remain skeptical that 3%/60% is achievable under any time frame or scenario.

It is painfully obvious that governments are losing their respective grasps on any level of fiscal restraint. Spending is an addiction that is nearly impossible to self-correct, even at the highest levels managed by some of the best educated and most capable. Elections are won based on promises of economic growth and investment, and the finger is always pointed at a non-associated entity or faceless group of individuals as being responsible for footing the bill, whether it be raising taxes on the wealthy, increasing trade tariffs on external partners, or making Mexico pay for the wall. However, the reality is that the legislative process is complex and mired in self-interests, so it is the government and its next generation of citizens that eventually receive the bill. There is no doubt that Social Security won’t be available for the Millennials and subsequent generations, and not because we initiated a better program but, rather, we bankrupted the current system because politicians were not able to make the hard decisions. Today’s politicians can’t run for election on a platform of austerity and social program reform, so the spending continues. No one knows when, but we are setting ourselves up for a period of financial hardship when the decisions will no longer be optional.

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 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 +19.1% in Q1 / contributing 2.4%). The sector represents approximately 14% of capital. Other top sectors include financials (+10.0% / contributing 1.9%) and consumer discretionary (+35% / contributing 1.9%). The largest detractors by sector include consumer staples (returning +6.1% / contributing 1.0%), energy (returning +12.3% / contributing 1.3%), and industrials (returning +9.7% / contributing 1.6%).

INTERNATIONAL SMA

The consumer discretionary sector was the strongest contributor to quarterly performance (returning +12.8% in Q1 / contributing 1.1%). The sector represents approximately 9% of capital. Other top sectors include financials (+8.3% / contributing 1.6%) and technology (+5.4% / contributing 0.7%). The largest detractors by sector include materials (returning -10.9% / contributing -0.3%), consumer staples (returning -1.9% / contributing -0.2%), and telecommunications (returning +0.3% / not significant).

Individual Contributors:

GLOBAL	bps	INTERNATIONAL	bps
CONTRIBUTORS		**CONTRIBUTORS**	
DICK'S SPORTING GOODS INC	134	HITACHI	130
HITACHI	84	TAIWAN SEMI	78
MERCK	76	THALES	69
RAYTHEON TECHNOLOGIES	66	MITSUBISHI FINANCIAL	66
TARGA RESOURCES	66	ESSILOR LUXOTTICA	39
DETRACTORS		**DETRACTORS**	
DEUTSCHE POST	-25	DAIKIN INDUSTRIES	-58
DAIKIN INDUSTRIES	-25	DEUTSCHE POST	-52
JOHNSON & JOHNSON	5	STMicro	-48
BUNGE	5	NESTLE	-41
DANONE	5	RIO TINTO	-27

PORTFOLIO ACTIVITY:

BUYS:

We initiated a position in Frontline (ticker: FRO) during the quarter. Frontline owns and charters one of the world's largest fleets of crude carrier vessels, known as VLCC, Suezmax, and Aframax tankers. Our research suggests that one of the global trade repercussions stemming from Russia's invasion of Ukraine and other related geopolitical events is that the global trading of energy has shifted and countries are now importing crude from distanced partners, resulting in more sailing days for ship charterers. More days on the water equates to more lease revenue for ship owners. Adding to the attractiveness, events in the Suez Canal and worsening weather conditions around the globe are resulting in longer trade routes. Barring a global recession, we believe leasing rates will remain escalated and that Frontline is well positioned to grow earnings and dividends.

SELLS:

During the quarter, we sold Sanofi and Albertsons. Sanofi's earnings growth looks to be muted over the next several years, as R&D spending is poised to accelerate and the company's drug pipeline lacks competitiveness with peers that are focused on GLP1 and/or oncology. We felt there were more compelling options within the healthcare sector. We invested in Albertsons when food inflation was on the rise and consumers were likely to return to consuming food at home after a post-COVID 19 recovery binge played itself out. Shortly after our investment, Kroger announced its intent to acquire Albertsons at a price that had upside relative to the current stock; however, it is becoming clear that Kroger will not receive the green light from FTC and other regulatory agencies to close the acquisition, so we decided to sell the position and reinvest in other nearer-term opportunities.

INVESTMENT OUTLOOK

Recent inflation releases in the US highlight the notion that the last mile is often the hardest to navigate, placing the Federal Reserve in a precarious position. We started the year with the consensus view that the Fed would cut rates as many as six times in 2024; however, after three stagnant monthly inflation releases, our view is that the fed funds rate will exit the year at the same level that it is today, approximately 5.3%. Our view is that the required economic conditions needed to move inflation from 3% to the Fed's target of 2% are not likely to occur this year – absent an unexpected economic shock. Better-than-expected GDP growth combined with continued deficit spending at the federal level will likely keep inflation north of the 2% target. While this is currently a non-consensus view, we think investors are slowly starting to recalibrate interest rate (and inflation) expectations for 2024, and this is evidenced by a flattening of the yield curve in longer-duration tenors. At the time of this writing, the yield of the US 10-Year Treasury is starting to climb back to the 5% level – making it only 0.3% lower than fed funds rate.

Despite the shift in expectations, both the US economy and US corporations seem prepared to handle the current rate environment and stocks are reacting positively against that backdrop. Earnings expectations for the year are positive, and while valuations are mixed (there are some pockets of excess), there are plenty of fairly valued opportunities with catalysts. The broadening of the opportunity set is a benefit to active managers and our specific universe, which is comprised of dividend payers across many sectors.

The probability of lower rates is arguably highest in Europe where inflation continues to recede leading to the European Central Bank lowering rates this summer. The decision will be a tailwind for consumer stocks but likely a headwind for European financials that are reaping the benefits that higher interest rates offer to their net interest income results. Many of our international positions, including Mitsubishi Financial, Allianz, and Stellantis, were strong performers during the quarter, and we will be looking for more opportunities across the consumer-facing sectors or other groups poised to benefit from lower interest rates. The international allocations continue to offer the best balance of valuation and growth potential across the portfolio.

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 growing dividends that will help investors preserve their purchasing power, even if inflation continues to be a concern 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

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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.