



Arcataur Capital Management LLC

A Registered Investment Advisor

High Quality Investment Management
For Individuals and Institutions

ARCATAUR INVESTMENT GRADE FIXED INCOME PORTFOLIO

The **Arcataur Investment Grade Fixed Income Portfolio** offers investors a separately managed account focusing on Treasuries, Agencies, Corporate Bonds, Preferred Stocks, Certificates of Deposits (CD's) and, for our tax sensitive clients, Municipal Bonds. Our fixed income strategy is to actively manage portfolios to generate conservative risk-adjusted total returns in order to preserve capital while generating current income. As a result, we target an average portfolio credit rating of A.

Key Portfolio Characteristics

- Conservative, Risk-Adjusted Returns that Preserve Capital and Generate Current Income
- Actively Manage Credit Risk, while Minimizing Interest Rate and Liquidity Risk
- Macro-Assessment Forms an Intermediate Term Interest Rate Outlook
- Portfolio Construction Focuses on Fundamental Credit Analysis and Cash Flow Analysis
- Investment Grade Portfolio which Targets Overall Average Credit Rating of A

Our primary objective for the **Arcataur Investment Grade Fixed Income Portfolio** is to provide consistent returns over long periods of time. We blend high quality securities from the most attractive sectors of the fixed income investment spectrum, applying a discipline that maximizes total return for the degree of risk assumed. We manage our client portfolios utilizing strategies based on quality, sector and spread analysis. Maturity, duration, convexity and liquidity are analyzed resulting in portfolio returns with the goal of meeting or exceeding industry benchmarks over the long run. Our resulting portfolios are ones of high quality and low volatility to provide a consistent rate of return.

Our fixed income process for the **Arcataur Investment Grade Fixed Income Portfolio** starts with a top-down, macroeconomic analysis to identify opportunities within the current business environment. We start by focusing on macro economic data that impacts current and future direction of interest rates. This includes inflation expectations, economic growth and financial security of bond issuers. The U.S. Federal Reserve and global central banks' monetary policies are critical constituents impacting current and future government bond yields which typically are the benchmarks for most fixed income securities. We look at the overall health of the economy to provide important insights into the stage of the business cycle and the implications for relevant economic fundamentals which impact fixed income valuations. We also analyze historic and current spread differentials among Treasury, Agency and Corporate fixed income securities to identify the most attractive sectors within the fixed income markets. The result of our approach is to actively manage interest rate and credit risk while minimizing liquidity risk.

Within the corporate sector, we select individual securities for further analysis. Our credit research emphasizes high quality issues where we evaluate the level of pretax interest coverage, leverage and cash flow. We also perform an in-depth sensitivity analysis as well as scrutinizing the overall bond structure of the client's bond portfolio. For risk control, we limit the maximum allocation and position sizes across the various domestic investment grade sectors.



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Fixed Income Investment Process for the Arcataur Investment Grade Fixed Income Portfolio

Step One: Macro Assessment

Our investment process involves multiple stages. It starts with an evaluation of the growth prospects of the domestic and international economies, along with current and expected inflation trends. The Federal Reserve and other global central banks' policies are important factors influencing the outlook for interest rates. Yield spreads, which are the difference in yield between shorter and longer maturities, are a critical consideration during different stages of the business cycle. Duration decisions are then made to maximize risk-adjusted returns. The object is to identify direction rather than magnitude of changes in interest rates. The interest rate outlook is constantly refined as conditions in the marketplace change.

Step Two: Sector Selection

Sectors within the fixed income market and credit spreads are reviewed to determine which sectors have the best relative values. The various sectors consist of the following:

- *U.S. Treasury securities*
- *U.S. Agency securities*
- *Corporate Bonds*
- *Municipal Bonds-where applicable*
- *Preferred Stocks*
- *Certificates of Deposit*

On average, our bond portfolio will include Treasury, CD and Agency securities within a range of 20 to 50% of the portfolio, while high quality corporate bonds will be in a range of 40 to 70%. Broad index-based exchange traded fixed income funds provide liquidity and diversification.

Step Three: Portfolio Construction

After the sector decisions are made, the next step is to evaluate the various securities in each sector to select the most attractive options. Particular attention is paid to the credit risk component of each security. We perform our own fundamental credit analysis on each security before purchase. The analysis begins with a detailed appraisal of the issuer's financial condition. Emphasis is placed on cash flow analysis, ability to repay debt and quality of cash flow. Once the security passes the first level of scrutiny, additional elements are evaluated including management, market position, industry outlook, and event risk. All securities in the portfolio will be investment grade at the time of purchase with a targeted average portfolio rating of A. To maintain a well-diversified portfolio, no individual corporate issuer will exceed 5% of a client's total bond portfolio and maturity is laddered to provide liquidity. Once the portfolio is constructed, it is monitored regularly to ensure compliance with the client's investment objectives and is modified as objectives or market conditions change.

Asset Class:

Fixed Income

Investment Style:

Intermediate Bond

Benchmarks:

Barclays/Bloomberg –
U.S. Aggregate, Invest-
ment Grade Treas-
ury/Gov't Spon-
sored/Credit 1-5 & 1-3
Years Bond Indices

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