

INCOME STRATEGY

Staying Flexible and Concentrated in a Time of Froth

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The Miller Income Strategy returned 11.69% (net of fees) in the first calendar quarter of 2024, while the benchmark ICE BofA US High Yield Index returned 1.52%. Risk performed well in the credit market, with CCC-rated bonds outperforming B-rated bonds, which outperformed the even safer BB-rated bonds. High yield did better than investment grade credit, which outperformed the aggregate core bond ETF's (AGG) -0.74% pullback. Inflation expectations popped again, with the bond market now expecting 2.7% annually over the next two years, up from 2.0% at the beginning of the quarter. Mortgage rates and commodities found some footing and ended the quarter higher. The continued economic momentum helped fuel the S&P 500's 10.56% total return with remarkable breadth across industry groups. This strength is not lost on our benchmark, which ended the quarter near multi-decade lows on the extra yield it provides over risk-free rates.

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The portfolio continued to benefit from its flexibility and ability to concentrate where we see value across the capital spectrum. With many valuations appearing frothy in the current environment, we can concentrate in idiosyncratic and deeply discounted value ideas. Why buy an assortment of bonds collectively trading at peak valuations when you can concentrate in a portfolio of best ideas whose objective is to outperform the dear benchmark?

When the Strategy is performing well and valuations in the portfolio remain as low as they are, we are hesitant to make many changes. However, remaining vigilant against investment mistakes and constantly searching for ways to improve the portfolio are both critical components of the process. This past quarter, we eliminated two mistakes and two winners that were approaching fair value. After Medical Properties Trust (MPW) announced yet another investment in a flailing tenant despite avowing to avoid the practice, we were forced to acknowledge our mistake and sell the stock. We liquidated what was left of Medifast (MED) after continued struggles in the face of weight loss drugs. H&R Block and Vonovia both approached our estimate of fair value, so we used those sales to fund more compelling ideas.

One of our newest holdings is Chord Energy (CHRD), a Williston-basin energy exploration consolidator with a thoughtful capital allocation framework, strong balance sheet and great assets that have low breakeven costs and long lives. Management is aligned with shareholders with approximately 70% of total CEO compensation at risk, and the company recently announced a merger with enerplus, which looks like a good move.

The portfolio also recently bought its first utility. UGI Corp. (UGI) distributes natural gas and electricity as well as liquid propane gas through its AmeriGas subsidiary, which is the largest retail propane distributor in the US. A true "dividend aristocrat," UGI has paid shareholders a dividend for 139 consecutive years and looks poised to boost its dividend for the 37th consecutive year. At today's price, the stock trades at its lowest price/earnings multiple in history, despite sporting a 6% yield with a plan to grow earnings power at a high single-digit rate. We also initiated a position in financial services provider Lincoln National (LNC), which just broke out to a 52-week high and looks inexpensive relative to its earnings power.

We are excited about the improvements we made to the portfolio over the last quarter, and we remain optimistic about the portfolio's prospects. As always, we remain the largest investors in the Strategy and welcome any questions and comments.

Strategy Highlights

By Jack Metzger, CFA

TOP CONTRIBUTORS

- **MicroStrategy Inc 0.75% 12/15/2025** was the top contributor during the quarter. Bitcoin performed very strongly in the quarter, gaining 68.9% in the period, while also posting a new all-time high of \$73.8K. After ending 2023 with 190K bitcoin, MicroStrategy purchased another 24.2K bitcoin subsequent to reporting 4Q23 results, pushing the company's holdings to 214.2K bitcoin as of 3/18/24.
- **Stellantis NV (STLA)** was another top performer during the quarter. The auto manufacturer reported full-year 2023 (FY23) revenue of €189.5B (\$204.5B), +5.5% year-over-year (Y/Y), ahead of consensus of €189.3B (\$204.3B), and Adjusted earnings per share (EPS) of €6.42 (\$6.93), +7.2% Y/Y, ahead of consensus of €5.88 (\$6.34). FY23 industrial free cash flow (FCF) was €12.9B (\$13.9B), or a FCF/Enterprise Value (EV) yield of 21.9%. After returning €6.6B (\$7.1B) to shareholders via dividends and buybacks in 2023, the company's board of directors proposed an annual dividend of €1.55/share (\$1.67), or a 5.9% yield, and management announced a new buyback program of €3.0B (\$3.2B), or -3.6% of the company's market cap.
- **Jackson Financial (JXN)** reported 4Q23 adjusted operating EPS of \$2.53, compared to 4Q22 EPS of \$5.66, below consensus of \$3.49. Registered index-linked annuity (RILA) sales rose 78.6% Y/Y to \$1.0B in the quarter, while FY23 annuity sales fell -18.5% Y/Y to \$12.8B. The company returned \$117MM to shareholders in 4Q23, bringing FY23 shareholder capital returns to \$464MM, or -9.1% of the company's market cap. Management raised its quarterly dividend by 12.9% to \$0.70/share (-4.2% yield), and established a 2024 shareholder capital return target of \$600MM (11.7% of market cap) at the midpoint.

TOP DETRACTORS

- **Medical Properties Trust (MPW)** was the top detractor for the quarter and the strategy exited. Tenant issues continued to plague the health care real estate investment trust (REIT) during the quarter, as management announced a \$350MM write-down due to uncollected rent from its largest tenant, Steward Health Care System, while also agreeing to provide a new \$60MM loan to Steward. Management later disclosed on the 4Q23 earnings call that Steward only paid approximately 25% of all rent and interest owed to Medical Properties Trust in 4Q23, but simultaneously announced it was negotiating a new bridge facility for the struggling tenant along with some of Steward's asset backed lenders.
- **The Buckle Inc (BKE)** reported declining comps through the quarter. The retailer generated FY23 FCF of \$217.4MM, or a FCF yield of 10.6%, with no debt other than store leases.
- **Vonovia SE (VNA GY)** disappointed, with the market share price declining -4.0% in the quarter. The strategy eliminated this position in favor of better opportunities.

TOP 10 HOLDINGS

Holding	Weight
Stellantis NV	7.60%
MicroStrategy Inc.	7.11%
AT&T	6.46%
Jackson Financial Inc.	5.41%
OneMain Holdings Inc.	4.88%
Western Alliance Bancorp	4.85%
Bread Financial Holdings Inc.	4.72%
CTO Realty Growth Inc.	4.70%
Viatis Inc.	4.62%
The Cannabist Co Holdings Inc.	4.25%

Holdings for a representative account. Holdings subject to change.

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The ICE BofA US High Yield Index tracks the performance of below-investment-grade, but not in default, U.S. dollar-denominated corporate bonds publicly issued in the U.S. domestic market, and includes issues with a credit rating of BBB or below, as rated by Moody's and S&P. The Bloomberg US Aggregate Bond Index is a broad base, market capitalization-weighted bond market index representing intermediate term investment grade bonds traded in the United States. The S&P 500 Index is a market capitalization-weighted index of 500 widely held common stocks. Investors cannot invest directly in an index and unmanaged index returns do not reflect any fees, expenses or sales charges. Price to earnings is the market price per share divided by earnings per share. Earnings per share (EPS) is the portion of a company's profit allocated to each outstanding share of common stock and serves as an indicator of a company's profitability. Free cash flow is earnings before depreciation, amortization, and non-cash charges minus maintenance capital expenditures. Enterprise value (EV) is a measure of a company's total value.

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