SMITH
CAPITAL INVESTORS

2023 Reflections

Dear Friends,

As we approach the close of another year, I find great value in reflecting on the past year. At the end of each year, I ask my team to dedicate time to reflect on the year and draft an email to share with the entire team. These reflections, whether centered on something learned, professional achievements, personal growth, inspiration, or a blend of many things, provide some insight into the individuals on the team, and their personal and professional journey.

A few years ago, we made the decision to aggregate these reflections and share them with you. This practice, while unconventional, may introduce an element of vulnerability that challenges the norm. However, it is precisely this vulnerability that offers you the opportunity to get to know us better and connect with us on a more personal level.

I firmly believe that transparency is the cornerstone of growth, both personally and professionally. By providing insight into our thoughts, emotions, and experiences, we create a culture of learning, development, and support. Our commitment to openness underscores an opportunity for great connection and empathy, while also creating stronger relationships.

I invite you to explore the reflections of my team members below.

We find ourselves filled with gratitude for the relationships we are developing and humbled by our opportunity to serve. Your engagement and support mean the world to us, and we look forward to continuing this journey together. Thank you, and Happy Holidays.

Let’s make 2024 the best year of our lives.

Warmly,
Gibson

Investment Team

Lindsay Bernum
Chief of Staff | Chief Culture Officer | Head of Macro & Rates

Time is Both a Friend and an Enemy
Time is a thief, this is not new information to anyone but with each year that quickly passes us by, I’m trying to accept time as both my friend and my enemy.

I started investing in an IRA at sixteen years old, time has been my friend in ways I only now understand. As the years passed, I have enjoyed reaching career and financial goals that only time can give you. I’ve also enjoyed the wisdom that time has gifted me both from the perspective of many years in our industry as well as my personal life. My children are reaching beautiful goals that are built on time, there is no greater feeling than the satisfaction of growth over time.

But as I reflect on how quickly 2023 seems to have gone by, I feel as though time has taken so much from me. Children growing, my family expanding, parents aging, new memories, new losses. The speed feels like it is accelerating each year and I hold on tighter, trying to reverse time and recreate previous memories.

My conclusion, similar to where many others have landed, is that time is a gift, and I am immensely blessed for more time.

Eric Bernum
Portfolio Manager

Unanticipated Outcomes
I have spent a considerable portion of my time reading this year, exploring the innate human tendency to mentally simplify exceedingly vast and intricate subjects into simplified versions that align with the capacity of our brains to understand and articulate. Reflecting on the events that unfolded across markets in 2023 underscored the multitude of "unanticipated" outcomes that can emerge given the boundless complexity and interplay of factors in markets, economies, geopolitics, and investing compared to our self-created simple version.

Entering 2023 the chances of stickier inflation continuing, resilient domestic consumers, regional banking collapses, and a barely avoided failure (via a regulator forced marriage with UBS) of Credit Suisse were deemed improbable at best by most market participants. Similarly, an unprecedented three-day, 100+ bp rally in two-year maturity U.S. Treasuries, followed six months later by the entire U.S. Treasury curve yielding above 5% was not a common topic of debate. Fixed Income markets were not alone in experiencing unanticipated outcomes as few were calling for a handful of mega-cap tech stocks to lead equity markets higher. Even on the geopolitical front, talk of increased regional conflict was certainly not focused on, the potential for large-scale terrorist attacks in Israel, followed by a rise in Palestinian sympathetic protests globally.

As we approach the time of the year when our inboxes are inundated with 2024 investment outlooks, political and economic forecasts, and a short list of “wildcards” to consider; my goal is to continually remind myself of the limited extent to which we, as a species, can truly grasp the vastness of factors and complexities that impact our everyday lives, let alone the intricate world of investing. Hopefully, that will lead to less shock about what 2024 holds in store for us, but I doubt it!

Jonathan Aal

Portfolio Manager, Co-Head of Credit Research

Patriotism

Over the past year, our team has been engaging in “Tuesday Teach-Ins.” It has been something special to say the least. It is an opportunity for our team to come together and learn about, discuss, and figure out ways to implement learned items not only into our team and work environment but also our personal lives.

One of my favorites, there have been several, was a teach-in we did shortly after the anniversary of 9/11. It was about patriotism. It was spurred by a conversation after listening to an interview of a man named Don Graves. Don was a flamethrower in the Marines during the Battle of Iwo Jima. A statistic referenced in the interview was the life expectancy of a flamethrower in the battle was less than five minutes. Listening to Don speak was humbling and evoked an extreme amount of gratitude and respect for men and women like Don.

Patriotism is a living and breathing thing as are most things worth anything. It is a verb, not just a mentality. Many elements build the foundation of what patriotism really is but one of them, at its core, is the belief in and action toward something bigger than oneself and the thankfulness for such a purpose. True patriotism is transcendent. If you are thankful for something, something which lifts your eyes above your own self-interests, you also have something for which to fight. Fighting and protecting something cannot be done passively. Our culture does not get better with a cruise control button. Similarly, our country did not and does not get better unless we are actively engaged in its past, present, and future.

During that meeting, we parsed through some famous and lesser-known quotes that have become etched into history by world leaders who served during times when the very preservation of what patriotism stands for was pounding at the door. In the face of this, we each agreed, however, that it is equally important, if not more important, to fight for the preservation and development of the virtues of patriotism when the allusion is as though the door is not being pounded on…when it's not screaming its necessity.

We live in the greatest country on earth but that is no assurance it will stay that way. If we want to continue living in the greatest country on earth, we must make it such…it's the same with anything, worth anything.

Garrett Olson

Portfolio Manager and Co-Head of Credit Research

My First Year as A Parent

While there are many financial topics worth reflecting on, 2023 was my first year as a parent following the birth of my daughter late last year, and this single development had more of an impact on me than any other. It is often said that you cannot tell someone what it is like to be a parent, but you have to experience it for yourself. I have certainly found this to be true. Leading up to becoming a parent, you think a lot about how you will teach your children about life, but you don't give as much consideration to what your children will teach you about life.

Surprisingly, I found numerous applications to markets in my learnings as a parent.

- Children teach you to be present. When I first became a parent, I found myself checking emails or reading texts while "watching" my child, worried that I might miss something or become less productive. As the year went on it occurred to me that my daughter deserves my full attention when I am with her, and that other things can and should wait. In markets, this translates into focusing more on current market conditions and opportunities rather than past mistakes or successes or potential predictions about future market moves.

- Children are endlessly adaptive. The pace of adaptation in our daughter over her first year of life was truly astonishing. New to bottle feeding? A month later she is holding her own bottle as she drinks it. Just learned how to roll over. A short time later she is crawling, climbing on things, and standing. Investing cycles have shortened and fixed income volatility has been elevated. In order to thrive in the current investment environment, we need to quickly adapt to changing valuations and market conditions and take advantage of volatility by actively managing the portfolio.

- Children focus on what is important. For most of her first year of life my daughter really only focused on a few things- eating, sleeping, and learning. She did not spend time worrying about what she was wearing, what other people thought of her, or acquiring new toys. With more interconnectedness, more data, and more volatility, the ability to identify signals from noise in investing is as important as ever. At Smith Capital Investors this translates into a focus on the math behind the market and leaning on the investment process to systematically focus on the most important drivers of portfolio outcomes.

My first year as a parent provided many great opportunities for personal and professional learning. With another child on the way in 2024, I have no doubt that my education is still in its early stages!

Zach Tucker

Head of Trading

<u>Short-Term Moves vs. Long-Term Trends</u>

2020-2023 were each years unique unto themselves – COVID, QE/Fiscal, Reopening, Inflation, et al. We wrote about market cycles shortening and the speed of capital; the world saw shifts in long-term trends but also mini-cycles that sputtered into diminutive moves never materializing into broader-scale changes in the status quo. In my personal life, our family grappled with how to make typical benchmark decisions like potentially buying a car or looking for a new home. We found it challenging to chart a path in 2023 as inflation led to higher prices (and higher interest rates), the latter stoking calls for a hard landing and a potential recession. As we made our decisions, short-term events influenced our mindset as we attempted to divine (with very limited success!) if global and local events were going to completely alter our framework…or just be another mini cycle. So, 2023 started with feeling stuck, ultimately leading to a capitulation that we needed to do what we needed to do and couldn't wait for prices or the economy to correct. And maybe, too, others acted similarly.

Will McCurdy

Credit Analyst | Risk Analyst

<u>Qualitative Leaps</u>

We on the investment team are intensely focused on qualitative improvement – in our investment process, in our individual work, and in our personal lives. We often use the word 'qualitative' in the same breath as 'quantitative' because we are keenly focused on both types of refinement in the way we work. For us, enhancing the efficiency, speed, and merit of our work is an active focus, not something that just happens naturally. I chose to reflect on this concept for 2023 because I learned that this type of goal demands a different type of focus, or else it remains forever aspirational. Making leaps in productivity and improving the quality of a process sometimes requires that we walk a bit slower in the moment to increase the length of our stride in the future. Markets are constantly changing, moving, and providing new information, which necessitates near-constant surveillance for an analyst like myself – this creates a dynamic where pressing 'pause' to reflect, and ask myself how I can be better does not always happen naturally. That, however, is why it is so important – there will always be a good excuse not to do it. Let me give a couple of examples that help frame this 'qualitative' improvement.

- AI: Technology has been a major topic of discussion this year, both within our firm and out in the broader market – a statement that is true for most years, but especially in 2023 due to the paradigm shift in artificial intelligence (AI). Although the full extent of AI's impact on our lives and the economy remains to be seen, it has already proven to be a productivity multiplier when used in the right contexts. We recognize that AI, in its present state, is a highly effective tool for enhancing productivity, but it is also clear that AI has its limitations, particularly in complex decision-making. These insights lead us to employ AI thoughtfully, using it to supplement certain operations (think coding assistant), but intentionally keeping it separate from our investment process. My role is primarily credit analysis, but I also use my computer science background to build tools for our team to 'run faster,' whether that be improvements to market surveillance, portfolio risk analysis, or research. While AI plays no part in our investment process currently, we are continuing to find ways to use this tool as a copilot on our journey to develop better technology, and this is only the beginning. Onward and upward!

- Tuesday Teach-Ins: Each week, an analyst on the team shares something to read, watch, or listen to – often investing-related, but topics are wide-ranging. We then meet to discuss this topic, ending our gatherings by determining how we can apply our learning directly to our process – to our team or to our personal lives. While this meeting sometimes falls during a busy time of the day or week, and I may feel like it 'pulls me away' from other work, it is this active focus and dedication that makes it so special, and why I point to this weekly ritual as a major source of growth for me in 2023. This new meeting format we put in place this year has been an absolute success, a joy, and a privilege to be a part of, and a meaningful contributor to our culture and our work.

Embracing qualitative improvement in a world that is constantly in motion is about daring to slow down sometimes, acknowledging that our progress and growth are measured not just in quantity, but in the depth of our thought, our work, and our achievements.

Bryan Owen
Credit Analyst

What Really Matters?

What really matters? For me, it is my health, family, friends, and work (in no particular order). Each one of these is interchangeable throughout different points in life. It is such a simple question that for many, may not yield a simple answer. I say that because it can be so easy in today's world to get lost in the minutia of everyday life. While this will start off on the somber side, I promise to bring it full circle. Of course, this will also include some mild thoughts on investing.

Late in 2022, I lost my brother Curan. We had his celebration of life in January. The emotions my family and I experienced over that time are impossible to put into words. They cannot be ignored or suppressed; they must be felt. It is something you must go through individually and together. It is true, time heals all wounds. However, that healing process has no timeline and is different for everyone. Leaning on the wise words of the late Charlie Munger, "Soldier on." The remainder of my year was filled with travel and incredible experiences with the people I value most in life – family, best friends, and my SCI family. There were work trips, the celebration of my dad's 60th birthday at BMW M-racing school, countless bachelor parties and weddings, and most recently Thanksgiving with my family. The summation of these moments – and the ones yet to come – are memories that will forever be priceless to me.

While we would all love to skip the sad and painful parts of life, without them, there would be no understanding of the true joy and happiness that comes with it. They are two sides of the same coin. In all of this – sadness, pain, love, and happiness – you come to realize through all the noise in life that there are only a few things that really matter. While it may seem complicated from time to time, it's likely there are only a couple of truly important things that deserve attention. Each one, if watered correctly, flows seamlessly through to the subsets of lesser importance.

When thinking about what really matters in life, I believe the same question can be asked about investing. We live in a noisy world, filled with troughs of data and headlines that can pull you away from focusing your attention on the important factors influencing an individual credit, industry, or the broader micro/macro cycle. The ability to break down variables into levels of importance can help direct your focus toward understanding what really matters – the endless endeavor in separating signal from noise. While this aims to simplify the complexity of the game in which we play, it is by no means easy. In fact, it's extremely difficult; such is life.

The New Year is quickly approaching and with it comes the infamous and generic New Year resolutions. Jonathan Aal recently mentioned a concept that really resonated with me – a yearly theme. My theme in 2023 has been finding out what really matters. Be it life or investing, I think many will find that what is truly important generally remains very consistent through time. Don't miss the forest for the trees. Figure out what is important and go all in.

Markus Manly

Credit Analyst

Newtonian Markets

2023 marked my first year as a full-time analyst in the investment management industry and with Smith Capital Investors. To say this year has been a whirlwind would be an understatement, but having the galleon of collective experience amongst the team here at SCI has made the turbulent waters of today's financial markets navigable. As part of the investment team's goal of continuous personal development outside of markets, I have found value in reading *The Great Mental Models* by Shane Parrish to enhance my cognitive decision-making. In reflecting on markets over the past year, I find many of the overarching themes can be related to Newtonian physics.

Newton's first law of motion embodies the fundamentals of inertia: an object will remain in its current state (rest or motion) unless acted upon by another force. The strength of the consumer has been in motion since the onset of pandemic-era stimulus and accommodative monetary policy, and this force has continued (albeit surprisingly) to persist through this year. The consumer, armed with job availability, excess liquidity, and access to multiple forms of credit, has been the driving force in the economy in recent years. What happens when this unstoppable force meets an immovable object (a Fed determined to quell inflation)? Perhaps 2024 will yield answers.

The volatility (and at times lack thereof) in markets seen throughout the year can be encapsulated by Newton's second law: the time rate of change of an object is equal both in magnitude and direction to the force imposed on it. Market narratives appeared to shift frequently and intensely throughout the course of the year. Data around inflation, growth, spending, and labor market strength as well as Fed commentary heavily influenced the magnitude and direction of market moves. While difficult to manage at times, these periods of market volatility created opportunities for alpha generation and served as reminders of the importance of agility within portfolio management. There was no shortage of learning opportunities in 2023.

The third Newtonian law of motion can be used to describe the dynamic throughout the year between markets and the Fed: for every action (Fed maintaining a restrictive stance on monetary policy), there seemed to be an equal and notably opposite reaction (market pricing in expectations of cuts). The strength of the economy and the stickiness of inflation this year have forced the Fed to maintain a hawkish bias, but the market was constantly looking for reasons to justify a pivot. The adage "Don't fight the Fed" took some time to be adopted by markets after the banking crisis in March and continued to be challenged along the way. I suspect this will continue to be a theme into 2024.

Keeping with the wisdom of Isaac Newton, much of the personal and professional development I underwent throughout this year is owed to standing on the shoulders of the giants on the Smith Capital Investors team. I am extremely grateful for the opportunity to work with such great people, and I look forward to the years ahead.

Jake Jones

Credit Analyst

Finding Purpose

Upon starting my long-awaited professional investing career, I have learned an enormous amount about credit analysis and markets. From the banking crisis in March to the shifts seen in the yield curve, there has been no shortage of events to learn from. As I think back on these market moves with a greater understanding of why they happened, it fuels my gratitude and passion for being a part of the Smith Capital Investors story.

While I have deepened my understanding of markets this year, the key lesson was finding the purpose driving our daily process. Generating alpha is priority one, but the motive and purpose are rooted in our value for people and relationships. When surrounded by individuals who are constantly challenging us in a loving way, seemingly insurmountable barriers become attainable goals. Through these challenges and difficulties, we develop character, continuously refine our process, and build relationships with colleagues and clients that make it real. True value and a sense of accomplishment are found by succeeding or learning from failures in a strenuous task with or for other people. This is why, as we head into 2024, I invite anyone willing to join us as we seek challenges together, to share in failure or success, allowing us to discover a more sustainable energy to channel towards a consistent process that yields results.

Roberta Tucker
Chief Compliance Officer

Living Our Mission
As I reflect on 2023, I ask myself did we live our mission? Were we a trusted and admired partner to our clients, partners, community, and team? Did our outcomes reflect our values? Were we consistently curious and hungry for improvement in the goals that we have set for ourselves as a firm?

Running through my internal score card I believe we made strides in the right direction but there is always room for improvement. As we move forward, I am challenging the team to keep a growth mindset, thirst for feedback, and manage our time focused relentlessly on achieving our goals as we are called to serve our clients, partners, community, and each other.

Kevin Branan
Head of Business Operations

Personal Wellness Matters
When you think about productivity, you think about focus, efficiency, and how long you can perform at a peak rate. You think about tackling the most important tasks first, keeping distractions at a minimum, and setting a routine. These are all positive contributors to boost productivity during the workday. However, as I reflected back on what led to my biggest productivity gains throughout the back half of the year, it was a conscious decision to improve my personal wellness.

Wellness is practicing habits of health that contribute to your overall well-being. Exercise, nutrition, sleep, and your own mindfulness are all powerful areas supplying their respective donation to a healthy state of mind. And each needs to play its part. I have seen first-hand over this last year what a lack of wellness can do to our mindfulness and how it affects productivity. Nutrition plays a very important role in fueling the body to allow you to accomplish your goals, focus on the tasks ahead, and thus providing energy for an exercise routine. Exercise releases endorphins to relieve stress and improves your mindfulness. And sleep recharges the batteries so you can do it again the next day.

If you want to boost your productivity in the new year, reinvest in yourself and plan on ways to boost your personal wellness. Your body and mind will thank you.

Wade Clouse

Head of Investment Operations

Perceptions Can Cloud Reality

After a rough and perhaps historically bad 2022, 2023 was a year that started with somewhat low expectations but after a fast start, those expectations grew to astronomical levels before petering out and then returning to more normalized levels. Of course, I am talking about Coach Prime and the University of Colorado's football season and not the S&P 500. However, one could draw some similar conclusions between the two and it also shows how perceptions can cloud reality. The reality of the football season for the University of Colorado was 4 wins and 8 losses which is not even a .500 record and puts them in the bottom half of all NCAA FBS teams, but the overall feeling was one of positivity and their games were some of the most watched games in all of college football. So, in spite of the actual on-field results the season could be classified as a success at least from the amount of interest expressed by viewers across the country and the overall optimism for the future.

The S&P 500 was also coming off a tough 2022 and had low expectations before surging approximately 19% from the beginning of the year through the end of November. Yet, even with these tremendous gains people's view of the economy and markets seems to be more pessimistic. The University of Michigan's consumer sentiment index, a gauge of consumer optimism about finances and the economy, dropped for the fourth consecutive month, reaching 61.3 by November 22, 2023. Typically, market highs boost consumer sentiment, but this has not been the case lately, perhaps influenced by ongoing conflicts in Europe and the Middle East and persistently high prices despite a slight decline in inflation.

Looking ahead to 2024, with a highly contentious U.S. presidential election on the horizon likely to stoke division, an air of uncertainty and apprehension prevails. However, there remains a glimmer of hope—perhaps 2024 could reflect Coach Prime's infectious optimism, and the markets and the economy could continue their climb to new highs. Maybe 2024 is the year that perception and reality are both positive for the Colorado Buffaloes and of course for the consumer.

Drew Casner

Lead Software Engineer | Portfolio Analytics

The Cat Is Out of the Bag

2023 will undoubtedly be remembered as the year AI evolved from a corporate buzzword and a staple of dystopian Sci-Fi into a tangible, everyday tool. ChatGPT stands out among these advancements, fundamentally altering our interaction with technology. This year, we've seen technology mimic what was once thought to be a distinct human characteristic: language. Although SCI does not use AI in the investment process, ChatGPT has demonstrated its prowess in diverse fields, from passing the BAR to coding websites and even selecting gifts for the pickiest relatives. Concurrently, programs like MidJourney and DALL-E have delved into the realm of art, generating mesmerizing works from mere prompts. What was once groundbreaking is now the norm, illustrating the rapid progression of AI. The implications of this advancement are far-reaching and poised to affect every sector in 2024. While I refrain from commenting on the morality of this impact, it's clear that 2023 will be marked as a defining moment in human innovation.

Reflecting on my last year's piece, it was a delight to revisit the awe-inspiring achievements of humanity, a reminder of our innate genius amidst a barrage of negative news. So, despite AI's prominence in tech discourse this year, let's not forget other significant milestones. SpaceX's multiple launches of the Falcon 9 booster, the first image of quantum entanglement, the complete sequencing of the human Y chromosome, and the discovery of a distant galaxy highlight the enduring magic and wonder of human intelligence. As the AI 'cat' emerges from the bag, our human curiosity and creativity continue to thrive and amaze.

Business Development Team

Mike Scherer

Co-Head of Business Development

<u>Personal Growth</u>

Last year I wrote about something very personal. For some reason, I feel compelled to do the same this year. I am going to do my best to consolidate what could take 100 pages into a paragraph or two!

On March 7th, 2014, I gave up alcohol.

It was a very difficult and personal decision, but one that would turn out to be the second best of my life (besides having my kids). I was one of the lucky ones who was able to make that decision before it was made for me, and I am grateful for it every day. I share this for two reasons. 1: I recently made another decision to let go of social media (with the exception of LinkedIn). I was never a big Facebook or Instagram user, but boy did I love my Twitter. I would find myself entrenched in political rabbit holes that ultimately made me a worse person. I see this vast Social Media world, often void of reality, and it makes me sad and scared for society (a bit dramatic but true). And 2: this can be a really difficult time of year.

Many of us in finance live in this world of bravado. “What’s my AUM,” “What’s my revenue,” and “How much is my book worth.” But, because of obligations, many of us this time of year are also forced to put “the business” aside for a period of time and return to our private lives.

It can be very difficult at times to find help when we need it or even admit that we need help. This by no means is designed to be a public service announcement. In actuality, it is more of a reminder to myself. But, when I combine 1 and 2, I am reminded that much of what I see and hear, especially this time of year isn’t real. And, if I am feeling a certain way, it is absolutely critical to talk about it. If you are reading this you have people that love and care about you, not just your EBITDA.

I hope everyone has a great holiday season!

Ryan Duffy

Co-Head of Business Development

Opportunity

From the field, our conversations continued to be on the timing of adding bond exposure and extending duration. In our opinion, the front-end yield trap is still a relevant consideration as investors remain underweight duration and concerned about yield curve normalization. In addition, conversations around credit have been very productive. Although nominal yields are attractive and tend to be a healthy gauge of forward-looking expected returns, credit spreads do not necessarily match that opportunity. Hence why we remain cautious heading into 2024 with portfolio liquidity being our #1 priority. As with any natural cycle, change will come.

Concerns over interest rates and inflation will eventually shift to economic growth, consumer spending, and credit, but we are probably not quite there just yet. Nevertheless, therein lies the potential opportunity for investors. We appreciate our all clients continued support and confidence. Enjoy the holiday season with your family and friends!

Dan Reams

Business Development

Transformation

Representing Smith Capital Investors in July marked a significant turning point in my professional journey. Transitioning from a large investment firm, I found myself immersed in the unique environment of a boutique fixed-income manager. What immediately struck me was the exceptional people and the vibrant culture that permeated the workplace. The shift represented not only a change in scenery but also a transformation in my daily experiences and outlook on work.

The decision to represent Smith Capital Investors has proven to be a source of genuine happiness and gratitude. The close-knit nature of the team fosters collaboration and a shared commitment to excellence, creating an environment that goes beyond the typical professional setting. This change has allowed me to rediscover the joy in my work, and I find myself invigorated by the dynamic and supportive atmosphere. As I reflect on this transition, I am reminded of the importance of aligning one's values with the workplace, and I am grateful for the opportunities that lie ahead in this new and fulfilling chapter of my career.

Chris Butts

Business Development

Intentional

Over the last year, I’ve had a tremendous opportunity to represent Smith Capital Investors. Working with a smaller team has given me the freedom to be very intentional in the way I build my relationships at work, at home, and in life.

Danny Schwab

Business Development

Consistency and Persistence

Looking back on the happenings of 2023, a few words come to mind… Consistency and persistence. As uncertainty and volatility hampered the markets throughout the year, it became easier to abandon your beliefs and your process. Anytime there is frustration abound it’s easy to become weary about the plan you have in place and look for alternative paths. What I’ve found throughout this year is that staying the course, and sticking with your process and plan will bring positive results. We have such an amazing opportunity and story with the investment team that we have in place and the consistency of the Smith Capital Investors process and philosophy. For me personally, staying persistent with our clients and prospects was trying at times, but the results have started to come to fruition. I’m so thankful for this team, this company, and this opportunity.

Closing Remarks

Gibson Smith
Founder | Chief Executive Officer | Chief Investment Officer | Portfolio Manager

As I reflected on 2023, I found myself trying to tie out the significant swings in sentiment and the resulting volatility. You only need to look at a graph of interest rates, credit spreads, or mortgage spreads to see the volatility. In trying to find the answers to why this is happening, I was reminded that we do not have any historical precedent or analog of the Federal Reserve engaging in Quantitative Monetary Policy or what we have grown comfortable calling quantitative easing/tightening. We have seen small bouts of quantitative policy exercises in the past, but nothing of the scale that we experienced during the COVID crisis. This new policy position and outcome are still being defined by markets. In hindsight, I believe we cannot downplay that a nine trillion-dollar balance sheet (7.6 trillion as I write) that removes securities from a marketplace, manipulates long interest rates and the shape of the curve, and serves as a loss absorption mechanism (with time as its friend) is not having a massive influence on markets. We as investors take comfort in analogs and love to compare the current situation with events of the past, looking for correlations and relationships. But when one doesn't have a good historical analog or experience, they are subject to the narrative of the market. This is formed by investors, media, and the great storytellers in the marketplace – thank you Mrs. Internet for the advancements in the speed of data and story. I believe this is largely responsible for the heightened sentiment swings and volatility. I could go on for hours writing about this experience and the outcomes, but the reality is, that we work in markets that are constantly evolving and we should not lose sight of the power of fundamental work and a default to basic common sense. I found myself asking the team in many of our meetings this year, "Is what is playing out in markets rational or irrational?" which was usually followed by "Are we supposed to be observers or participants?". As markets evolve, we have to use them as a source of education and not lose sight of the importance of evolving with them. As Kahneman described in his book 'Noise', we have to take the noise seriously and do all we can to make sure we reflect on how we are making decisions. I am constantly focused on how we can improve our processes and decisions that align with our desire for great risk-adjusted returns with a focus on preservation of capital. Lesson – We must evolve to obtain excellence.

On the personal front, I recently shepherded my mother from Minneapolis to Orange County after she experienced a series of strokes that rendered her impaired and suffering from significant aphasia (the inability to communicate both verbally and nonverbally). Experiencing my mother's state, the Metallica song 'One' took on a new meaning for me. It must be absolute purgatory to be aware/awake but unable to communicate. In my estranged relationship with my mother, I have spent years trying to reconcile what our relationship was supposed to be, and how I was supposed to behave and act. Over the last seven weeks, I found myself very cold, numb, and hard-hearted toward her situation. The internal conflict, due to my lack of emotion, bled into me questioning the integrity of what I expect from my family and my team around care, empathy, forgiveness, and love. This also raised issues for me around personal hypocrisy and regret. It was particularly challenging for me to reconcile the core values of Empathy and Service that I stress at the firm and in my life. In a recent meeting, I humbly apologized to the team for the inconsistency in my behaviors around what I was living through with my mother and what I have preached to them about the importance of being very intentional around the values and behaviors that we must follow. You can imagine what the conversations at home were like. As I dug deeper in thinking about what was playing out for me, it dawned on me that in every experience there is a lesson, and frequently, the lesson is one that we must learn over and over. I ended up bringing much of this experience back to relationships and how influential they are in our lives. They are one of the key foundations of our existence and can be a great source of happiness or suffering. And sometimes happiness and suffering come to us in cycles. As my great friend Brinton reminds me, relationships can be cast as 'for a reason', 'for a season', or 'for a lifetime'. Each has a different purpose and intention. We seek out the 'lifetime relationships' with great vigor because they can be our ultimate support system. With my mother, we are, by definition, in a lifetime relationship, and while not perfect, it has been one of the greatest sources of personal growth and development for me. Some positive and some negative, but always present in my life. She has graced me with lessons, gifts, and experiences that resulted in who I am today. And while I may have wished for things to be very different, the reality is that everything happened for a reason, and I had the opportunity to learn and make decisions around what I wanted my journey in life to be. My relationship with my mother, imperfect as it may be, has been a source of significant personal growth. It has taught me that relationships, with their ups and downs, pain, and joy, serve as catalysts for self-discovery and evolution. Very similar to when my father passed, I find myself incredibly thankful to my mother today for forcing me to find my personal mission and get on my journey toward being the person I am today. Our relationships serve us in ways that may not be perfect at a point in time but mold us into who we are today. They also allow us to continue to evolve as people and to evaluate how we can become our best selves. The ups and downs, the highs, the pain and suffering, and the points of great connection or disassociation in relationships are all part of the walk of life.

As I extend my wishes for my mother's recovery and ease for my sister, her caretaker, the overarching lesson remains clear: learn from every relationship, embrace both positive and negative aspects, and see them as opportunities for growth.

Thank you for allowing me to share these reflections. While my insights may lack profound wisdom, the collective wisdom of my team is immeasurable. I take immense pride in the relationships we are building and in the process of strengthening them.

I express my sincere gratitude for entrusting us with the opportunity to serve. We are committed to earning that privilege every day. With great gratitude and appreciation.

Our mailing address is:
Smith Capital Investors
1430 Blake Street
Denver, CO 80202
303-597-5555
833-577-6484
info@smithcapitalinvestors.com
www.smithcapitalinvestors.com

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