



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, Agency securities, corporate bonds and, for its tax sensitive clients, municipal bonds, with an average portfolio credit rating of A or better. Our fixed income strategy is to actively manage portfolios to generate conservative risk-adjusted total return. Our focus is to preserve capital while generating current income.

Arcataur Investment Grade Fixed Income Portfolio

- Seeks conservative, risk-adjusted returns that preserve capital and generate current income
- Actively manage credit risk, while minimizing interest rate and liquidity risk
- Macro assessment creates an intermediate term interest rate outlook
- Portfolio construction focuses on fundamental credit analysis and extensive cash flow analysis
- Investment grade focus with a targeted average portfolio credit rating of A

In our [Arcataur Investment Grade Fixed Income Portfolio](#), consistency of returns over time is our primary objective. We blend high quality fixed income securities from the most attractive sectors of the investment spectrum, applying a discipline that maximizes total return for the degree of risk assumed. Client portfolios are managed utilizing strategies based on quality analysis, sector analysis and spread analysis. Maturities, duration, convexity and liquidity are analyzed resulting in portfolio returns that should, over time, meet or exceed benchmarks. Our resulting portfolios are ones of high quality and lower volatility that should provide a consistent rate of return.

Our fixed income philosophy for the [Arcataur Investment Grade Fixed Income Portfolio](#) is to use a top-down, macroeconomic business cycle approach to identify opportunities. Sector decisions are made based on our macroeconomic evaluation, including the direction of interest rates and the economy. Security selection emphasizes high credit quality issues.

An overview of macroeconomic fundamentals provides important insights into the stage of the business cycle and the implications for relevant economic fundamentals which impact fixed income valuations. Analysis of historic and current spread differentials among Treasury, Agency and corporate fixed income vehicles identifies the most attractive sector of the fixed income markets. Concentrated evaluation of this sector then identifies individual securities for further analysis. Corporate fixed income issues identified as possible additions to the [Arcataur Investment Grade Fixed Income Portfolio](#) are further analyzed to ensure acceptable levels of pretax interest coverage, leverage and cash flow. Our security selection emphasizes in-depth sensitivity analysis, credit research, and bond structure. 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 and begins with an evaluation of the domestic and international economies. This is followed by a review of the current state of the credit markets. Based on this information, an interest rate outlook is developed for the intermediate term. 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

Once a maturity decision is made, market sectors and credit spreads are reviewed to determine the sectors with the best relative value. The various sectors consist of the following:

- U.S. Treasury securities
- U.S. Agency securities
- Corporate bonds
- Municipal bonds
- Preferred stocks
- Certificates of deposit

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 evaluation of the financial condition of the issuer. Emphasis is placed on cash flow analysis, ability of the issuer to repay debt, and quality of earnings. 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 an average portfolio rating of A. Once the portfolio is constructed, it is monitored for continuing compliance with the client's investment objectives and modified as objectives or market conditions change.

Asset Class:
Fixed Income

Investment Style:
Intermediate Bond

Benchmark:
Citigroup-Broad Investment Grade Treasury/Gov't Sponsored/Credit 1-5 Years Bond Index

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