




Berwyn Income Fund  
(BERIX)

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# SECTION I FUND OVERVIEW

# Key Characteristics of the Berwyn Income Fund

 **Emphasis on income generation, potential for capital growth, and relatively low downside risk**

- Seeks diversified portfolio of income generating assets
- Focused on total return rather than just yield
- As much emphasis on risk as return
- Majority of the fund invested in fixed income securities; 30% may be invested in dividend paying common stocks
- Flexible asset allocation, not static...changes over time, dictated by potential risk and reward
  
- Investment Style: Value
- Morningstar Category: Allocation 15%-30% Equity
- Inception Date: 9/3/1987

Morningstar Category "US OE Allocation -- 15% to 30% Equity" includes mutual funds that can invest up to 15% to 30% of the fund in equity securities and invest the remainder in fixed income securities.

## Key Investment Team Members



### **George Cipolloni, CFA**

#### **Portfolio Manager**

Mr. Cipolloni joined Chartwell Investment Partners in 2016 as a Senior Portfolio Manager. From 2002 to 2016, Cipolloni worked at The Killen Group (“Killen,” the predecessor advisor) where he was a Vice President, Portfolio Manager, and minority shareholder. At Killen, Cipolloni primarily managed the Berwyn Income Fund, and was on the Investment Management Committee. His primary responsibilities within the Investment Management Committee included research, trading, and portfolio analysis. Cipolloni holds the Chartered Financial Analyst designation.



### **Mark Saylor, CFA**

#### **Portfolio Manager**

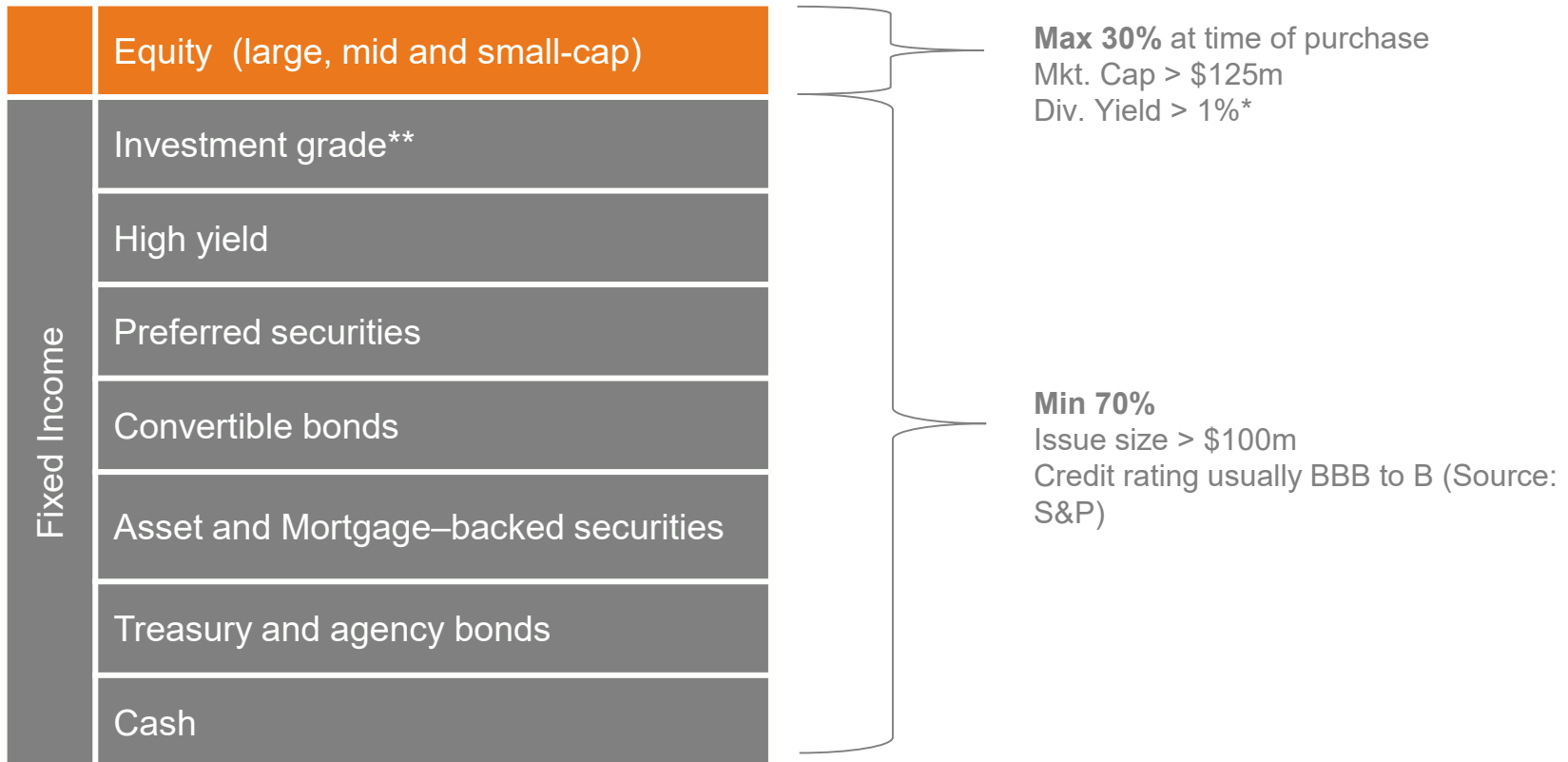
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# Investment Philosophy

## Five Key Tenets

- ✦ **Valuation driven**
  - Purchase equity at discount to intrinsic value
  - Most bonds purchased at discount to par [or relatively wide spread]
- ✦ **Contrarian**
  - Have a tendency to think differently than Wall Street consensus
- ✦ **Independent thinking**
  - All research in-house
- ✦ **Bottom-up**
  - Strong focus on return on capital and other financial parameters
  - Macro-economic view, if any, by-product of bottom up research
- ✦ **Long term**
  - Willingness to see through short term issues

# Investment Universe



\*Not required to sell a position if the dividend is eliminated.

The yield is determined by dividing the amount of the annual dividends per share by the market price per share of the stock

\*\*Investment Grade is any security rated by S&P BBB or higher OR by Moody's Baa3 or higher

# Long-Term Track Record (USD)

- Ranked in the Top 14% returns for 10 years (Allocation 15%-30% Equity)

| Total Return % (12/31/2018)                             | One Year     | Three Year   | Five Year    | 10 Year     | 15 Year     |
|---|--------------|--------------|--------------|-------------|-------------|
| <b>BERIX</b>  | <b>-0.82</b> | <b>3.87</b>  | <b>2.29</b>  | <b>7.54</b> | <b>5.93</b> |
| Morningstar US OE Allocation 15% to 30% Equity Category | -3.14        | 2.96         | 2.17         | 5.49        | 4.01        |
| <b>+/- Category</b>                                     | <b>2.32</b>  | <b>0.91</b>  | <b>0.12</b>  | <b>2.05</b> | <b>1.90</b> |
| <b>Percentile Rank in Category</b>                      | <b>8</b>     | <b>20</b>    | <b>53</b>    | <b>14</b>   | <b>1</b>    |
| <b>Number of Funds in Category</b>                      | <b>200</b>   | <b>175</b>   | <b>150</b>   | <b>86</b>   | <b>32</b>   |
| <b>BERIX</b>  | <b>-0.82</b> | <b>3.87</b>  | <b>2.29</b>  | <b>7.54</b> | <b>5.93</b> |
| Lipper Income Fund Index                                | -3.94        | 4.21         | 3.20         | 6.74        | 4.70        |
| <b>+/- Lipper Index</b>                                 | <b>3.12</b>  | <b>-0.34</b> | <b>-0.91</b> | <b>0.80</b> | <b>1.23</b> |

Past performance does not guarantee future results. Investment fund and principal value of an investment will fluctuate, so that an investor's shares, when redeemed, may be worth more or less than the original cost. Current performance may be lower or higher than the performance data cited. Current month end data is available at [www.chartwellip.com](http://www.chartwellip.com). Returns for periods of less than a year are not annualized. The fund's gross expense ratio is 0.69%.

Source: Thompson Reuters; Lipper Report as of 12/31/2018, Morningstar

- Morningstar Category "US OE Allocation -- 15% to 30% Equity" includes mutual funds that can invest up to 15% to 30% of the fund in equity securities and invest the remainder in fixed income securities.
- Lipper Income Fund Index consist of income producing mutual funds as tracked by Lipper Inc.
- One cannot directly invest in an index.

**Past performance is no guarantee of future results.** Morningstar Percentile Ranking: Rankings are based on total return, including the reinvestment of dividends and capital gains but do not include sales charges for the periods indicated. Rankings are relative to a peer group and do not necessarily mean the fund had high total returns. Funds are assigned a rank within a universe of funds similar in investment objective as determined by Morningstar. The lower the number rank, the better the Fund performed compared to other funds in the classification group. The highest rank is 1 and the lowest rank 100. The Fund's ratings reflects fee waivers in effect; in their absence, ratings may have been lower.



# Long Term Performance Summary

## (2009-2018)

 The Fund beat the Morningstar US OE Allocation 15%-30% Category Average Return in 6 out of the past 10 years.  
(As of 12/31/2018)

|   |                    |
|---|--------------------|
| <b>Average Beat over the 7 years</b>          | +495 bps*          |
| <b>Average Loss over the 4 years</b>          | -104 bps           |
| <b>Best Beat</b>                              | +1,181 bps in 2013 |
| <b>Worst Loss</b>                             | -233 bps in 2017   |
| <b>Years Beat by <math>\geq</math> 600bps</b> | 2009, 2013         |
| <b>Years Lost &gt;200bps</b>                  | 2017               |
| <b>Best Absolute Return</b>                   | +30.2% in 2009     |
| <b>Worst Absolute Return</b>                  | -3.3% in 2015      |

\*One basis point is equal to 1/100th of 1%, or 0.01% (0.0001), and is used to denote the percentage change in a financial instrument.

Source: Morningstar

*Past performance is no guarantee of future results.*

# Two Ways the Team Attempts to Add Value

## INDIVIDUAL SECURITY SELECTION

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### What is currently cheap?

Valuation screens

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### Is there value?

Financial Ratio and Statement Analysis

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### Is the value sustainable?

Competitive / Strategic Analysis

## ASSET ALLOCATION

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### Go where the value is

Decide on capital structure entry

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### Avoid overvalued / Bubble markets

(Tech in 1999, Housing in 2007)

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### Cash/Short term liquid allocation is a residual

High Cash/ST Liquid = little perceived value

Low Cash/ST Liquid = attractive markets

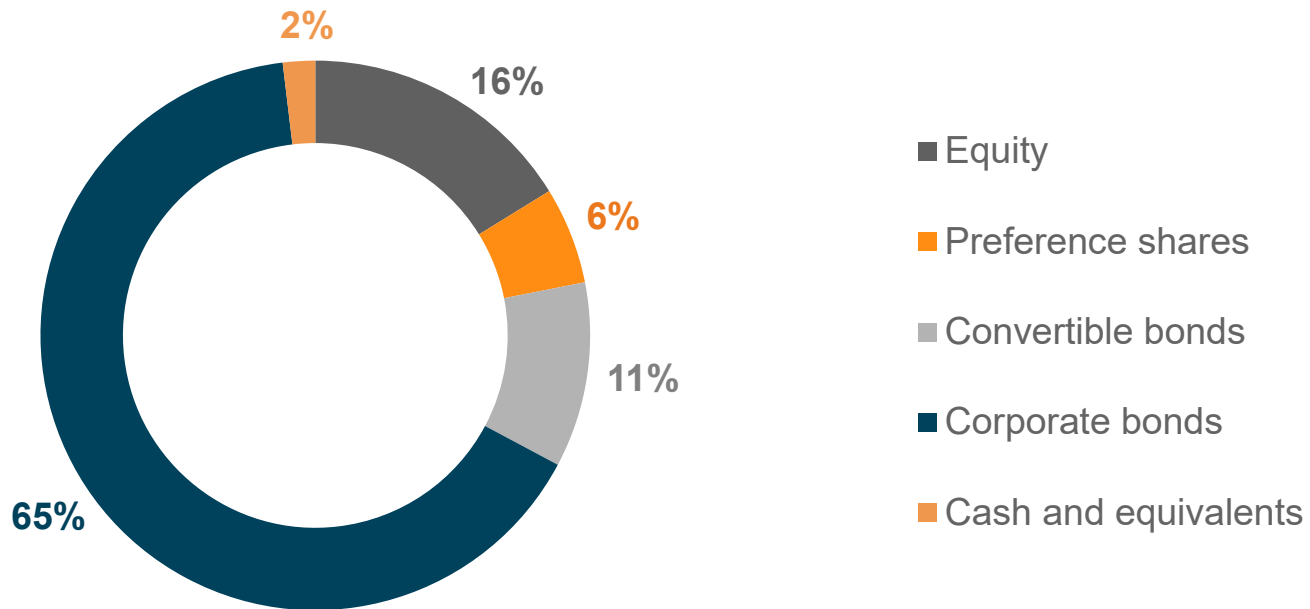


We believe that Flexibility and Contrarian thinking are required to take advantage of various market cycles



# Current Fund Positioning

As of December 31, 2018

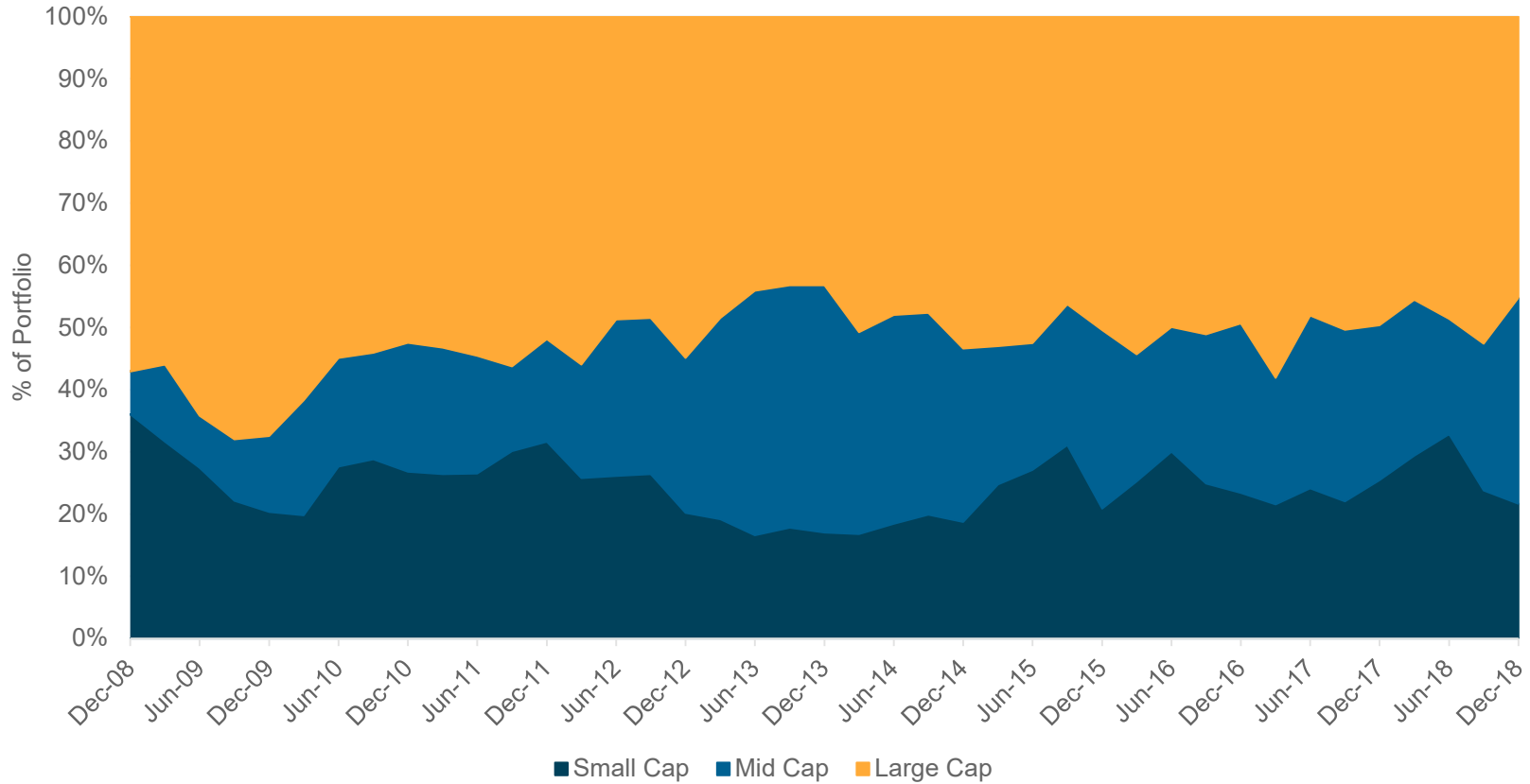


Source: Chartwell  
Asset allocation subject to change

# BERIX Flexibility

## Across Equity Capitalization

BERIX Quarterly Common Stock Market Cap Breakdown  
December 31, 2008–December 31, 2018

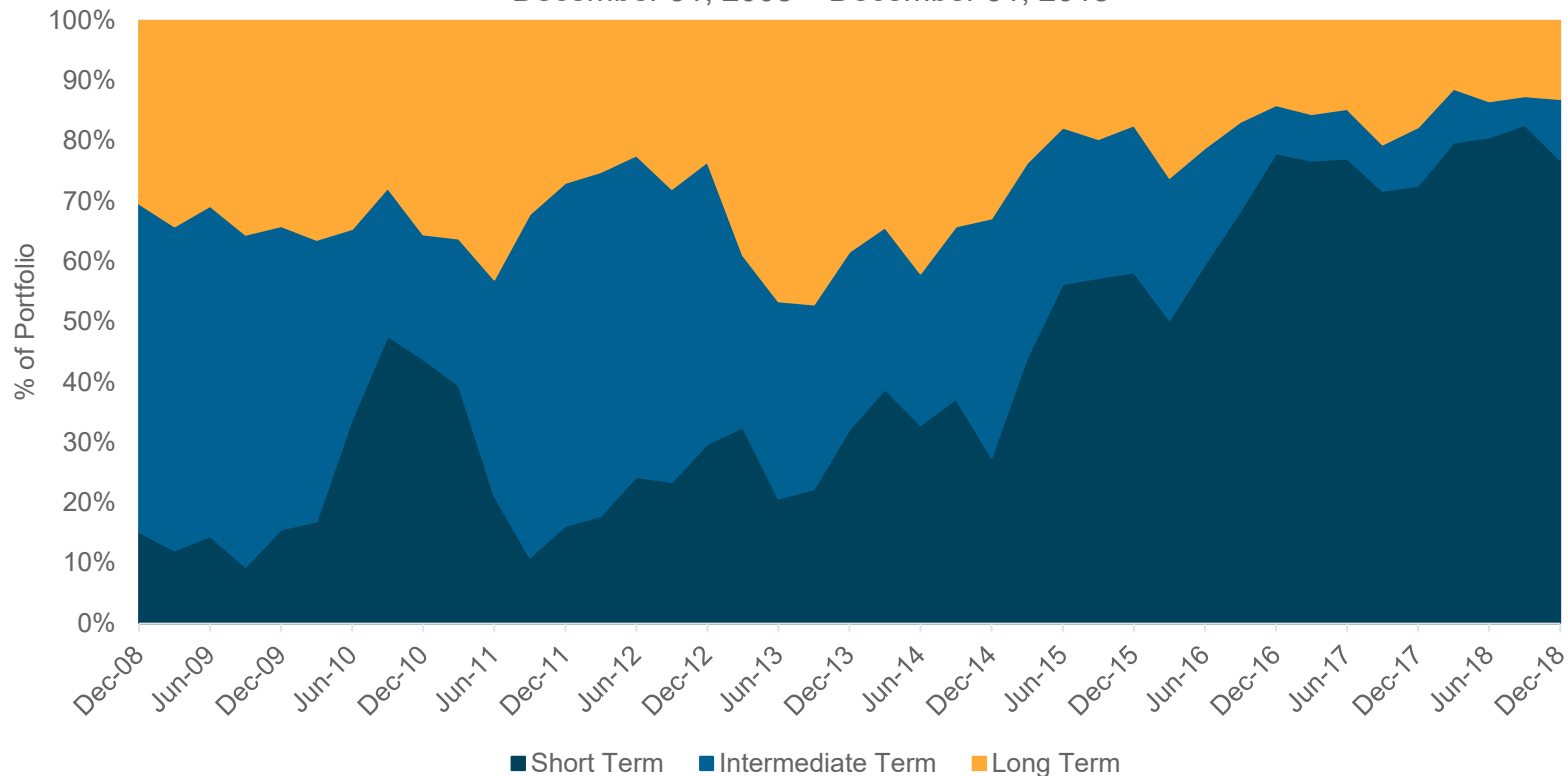


Source: Chartwell  
Allocation is subject to change

# BERIX Flexibility

## Across Fixed Income Maturities

BERIX Quarterly Corporate Bond Portfolio Bond Maturity Breakdown  
December 31, 2008 – December 31, 2018

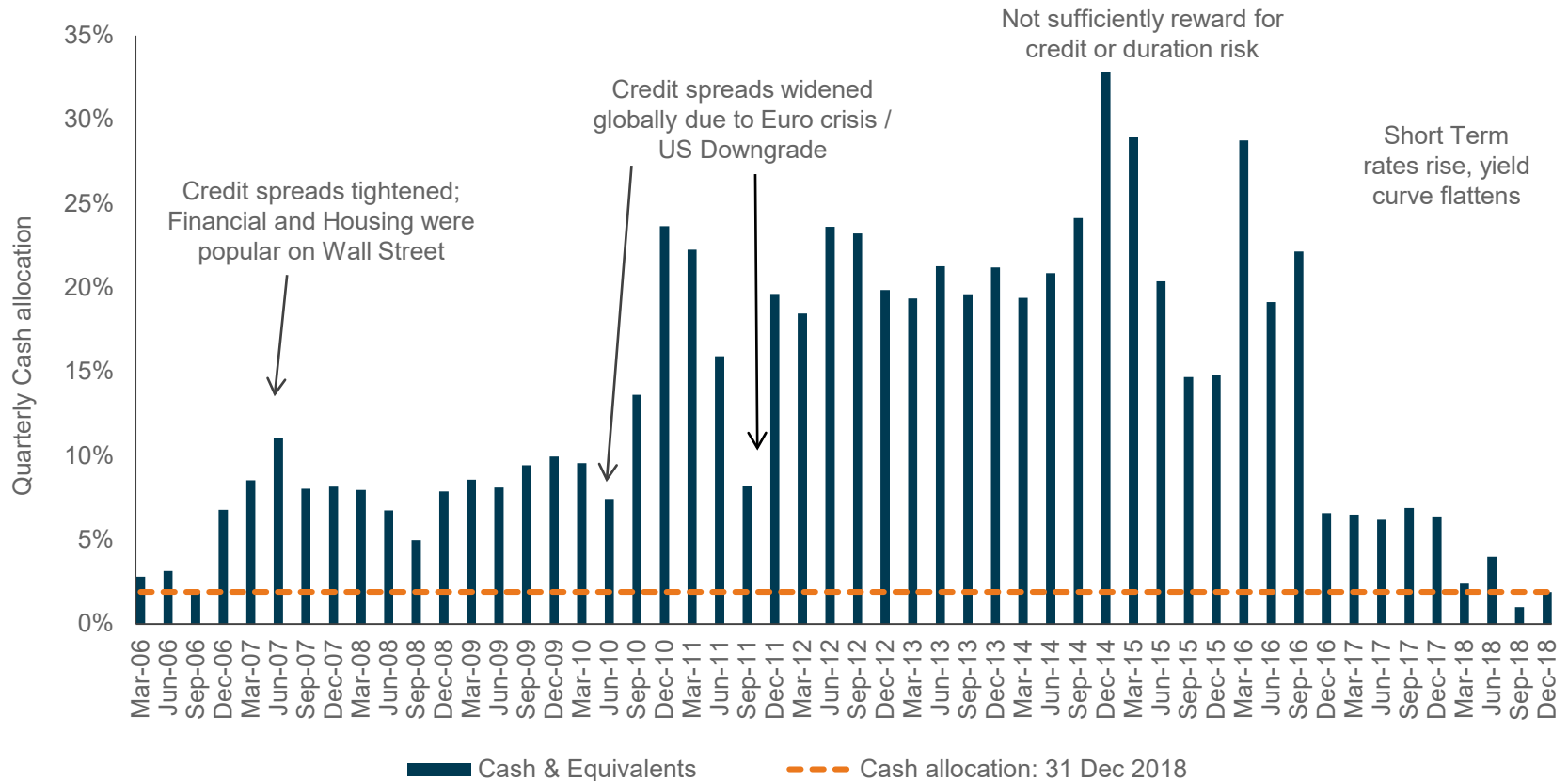


Source: Chartwell  
Maturity breakdown is subject to change

# BERIX Flexibility

## Cash Allocation

- Very low cash allocation – deployed primarily into short term corporate bonds
- Patiently wait for volatility to create opportunity



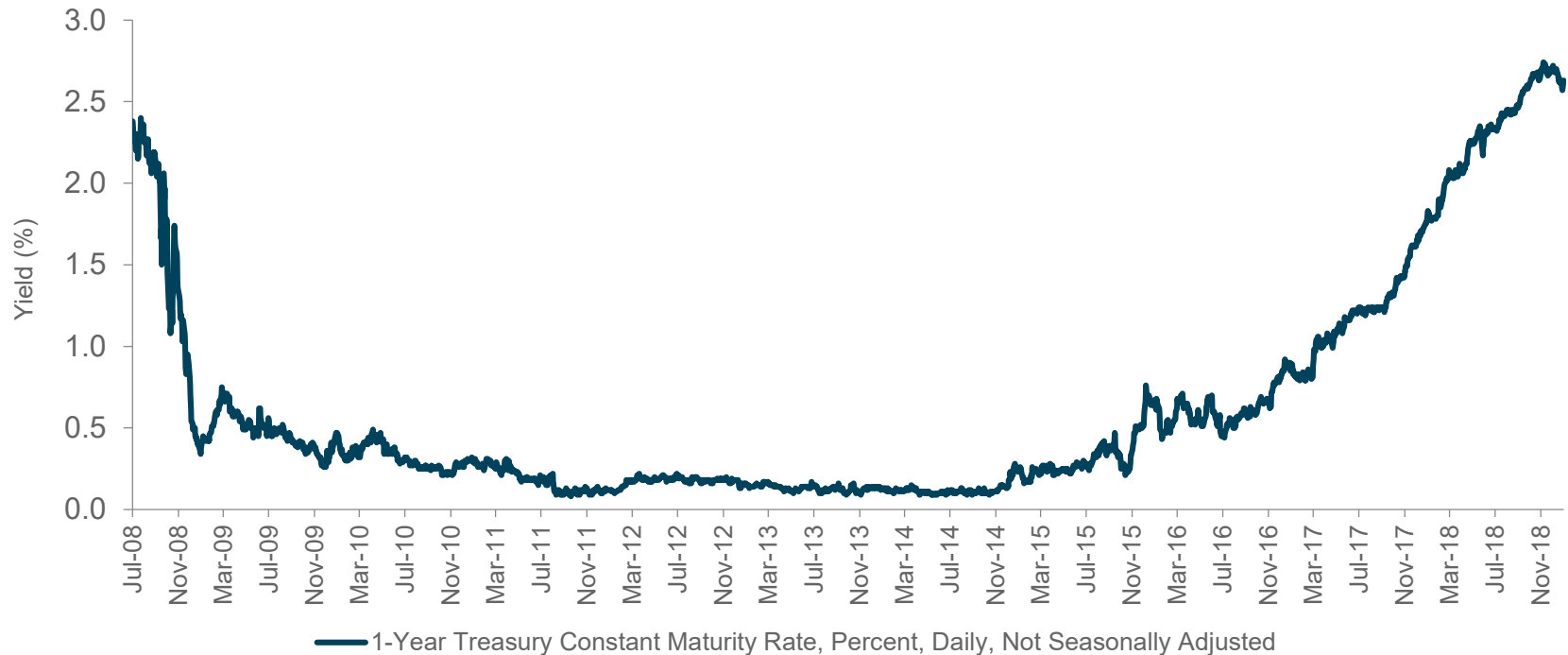
Source: Chartwell  
Allocation is subject to change

## SECTION II IDENTIFYING OPPORTUNITIES & MITIGATING RISK

## Recent Opportunity

### Short-term Bonds

- Feds raised short-term interest rates
- From a nearly 0% yield in 2014, short-term yields are at their highest level since 2008



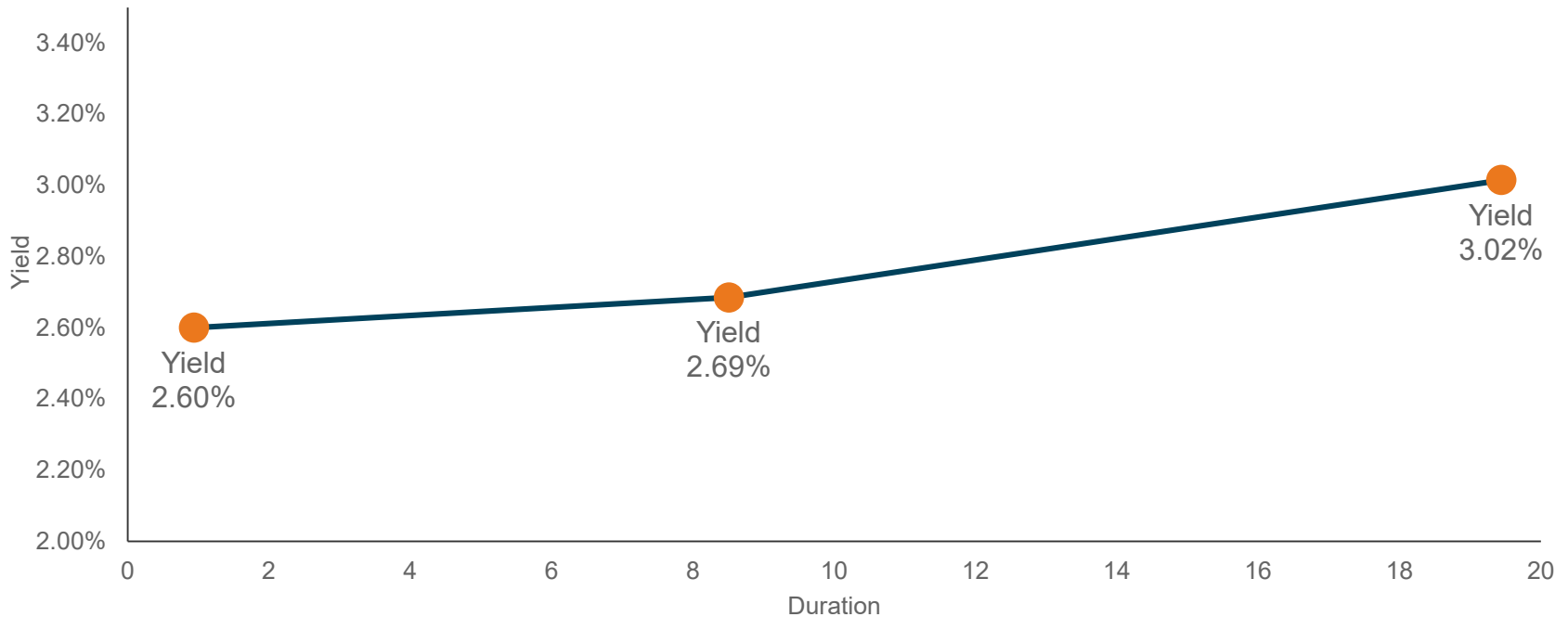
Source: Board of Governors of the Federal Reserve System (US)



# Recent Opportunity

Short-term Bonds as of December 31, 2018

- US yield curve flattening
- The duration differential is pretty staggering while the yield differential is as low as its been in quite some time

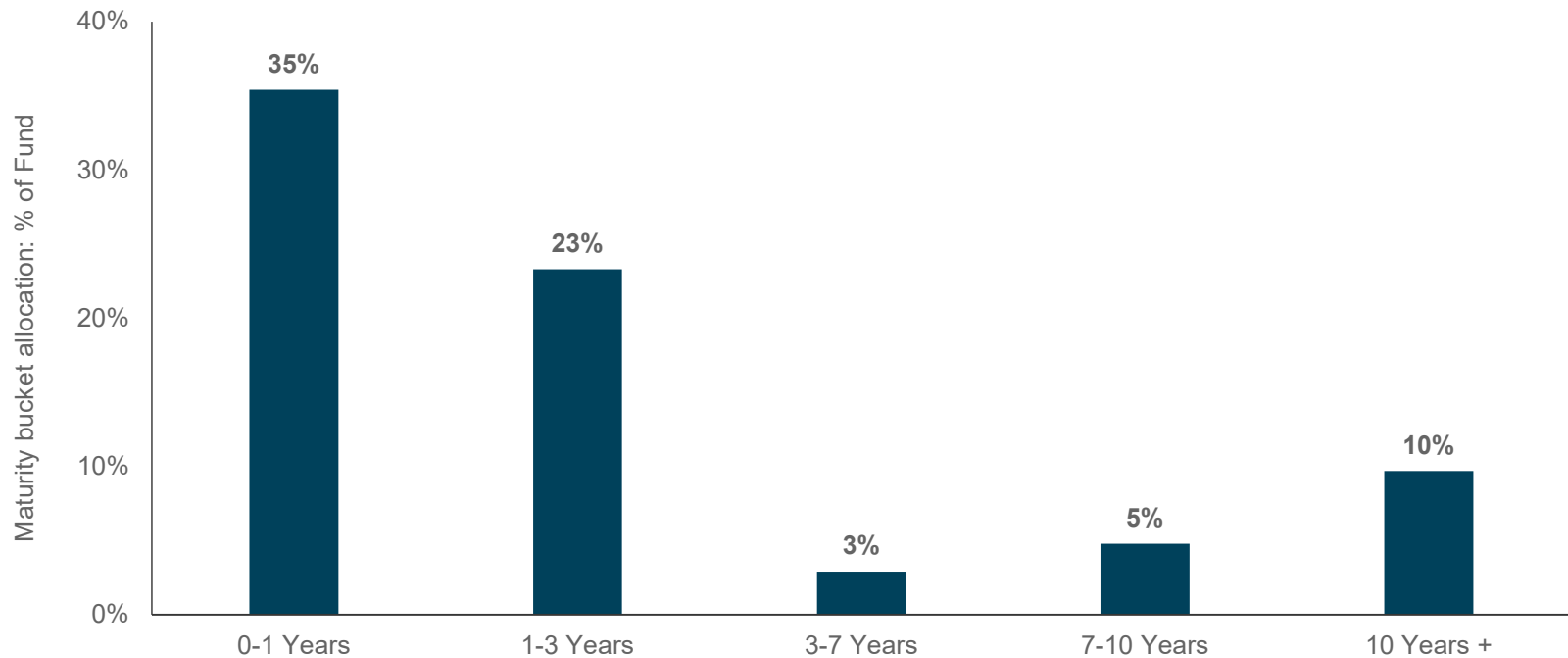


Source: Board of Governors of the Federal Reserve System (US)

# Recent Opportunity

## Short-term Bonds as of December 31, 2018

- Underweight long-duration bonds
- More than half of the fund matures in less than three years

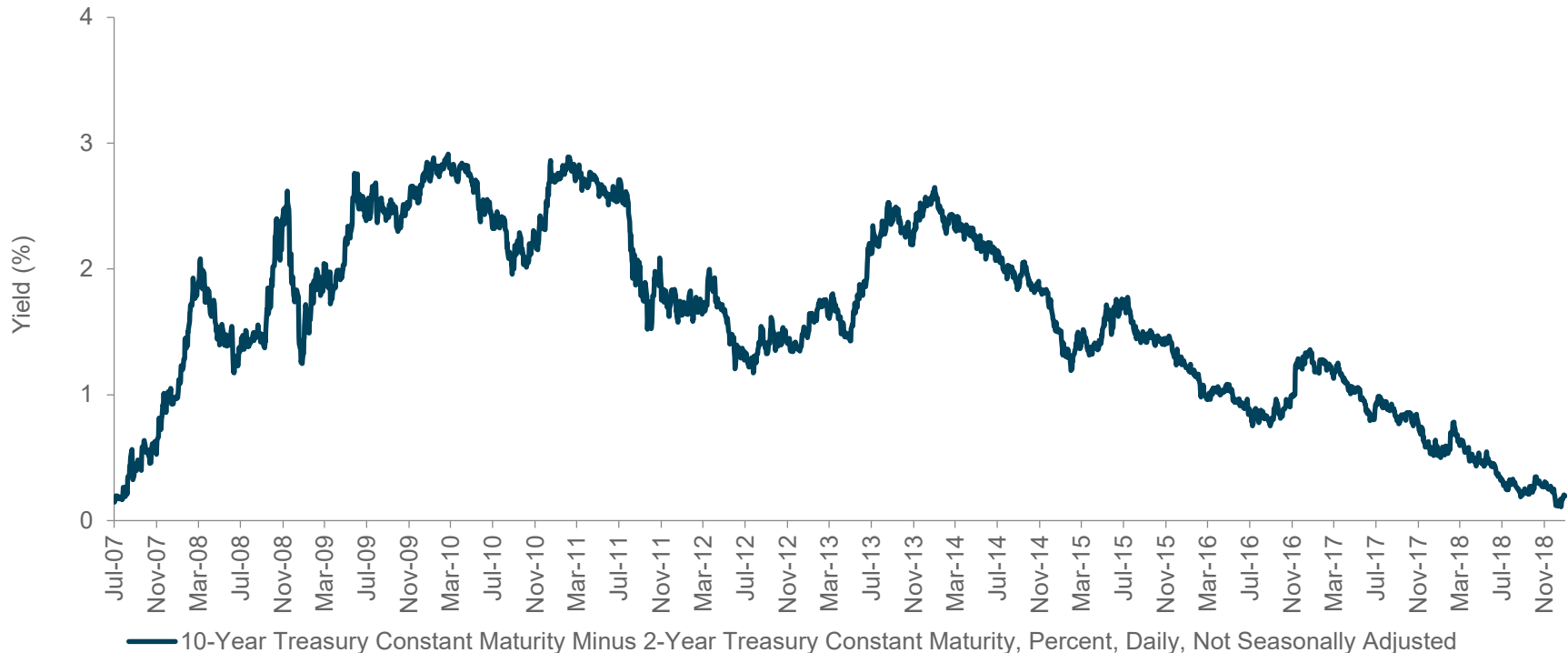


Source: Chartwell  
Allocation subject to change.

# Mitigating Risk

## Underweight Long-term Bonds

- US yield curve flattening – Short Rates Rising, Long Rates Declining
- The difference in yield between short- and intermediate-term bonds is as low as it's been since before the Global Financial Crisis



Source: Federal Reserve Bank of St.Louis

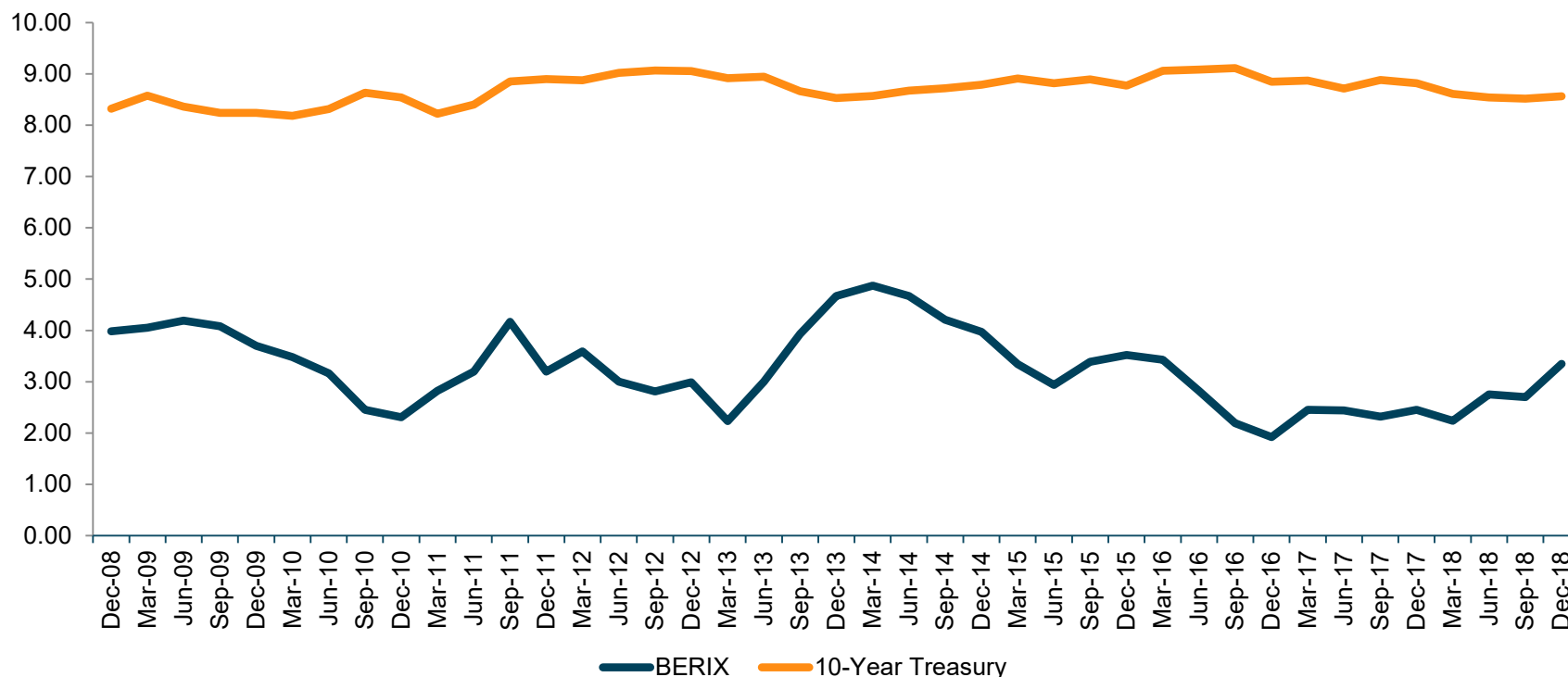
*Past performance is no guarantee of future results.*

# Mitigating Risk

## Underweight Long-term Bonds

- We recognize the risk and we are attempting to avoid it

**Duration - BERIX vs 10-Year Treasury**  
December 31, 2008 - December 31, 2018



A 10-year treasury note is a debt obligation issued by the United States government that matures in 10 years.

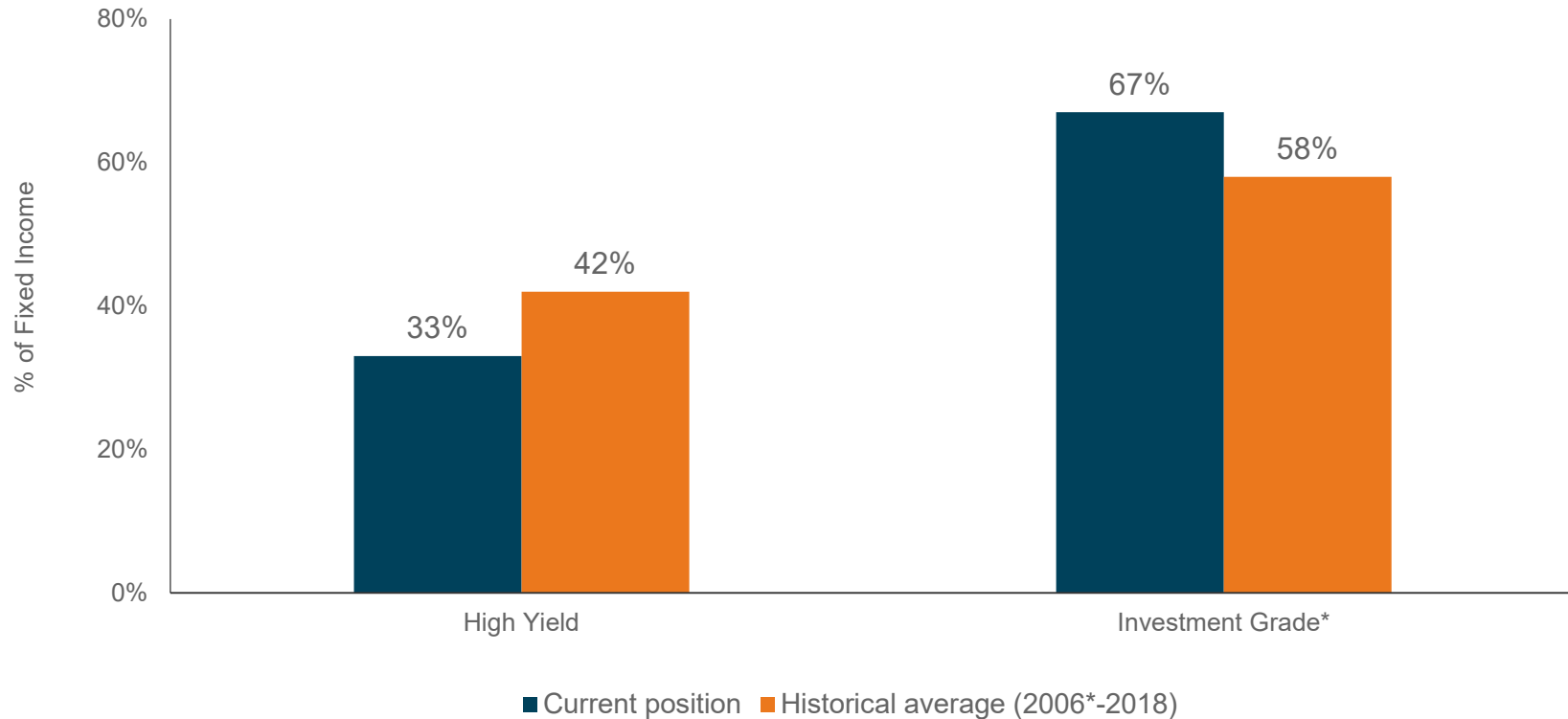
Source: Bloomberg.

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# Mitigating Risk

## Underweight High Yield Bonds as of December 31, 2018

- Underweight high yield bonds relative to historical fund average positioning



Source: Chartwell

Allocation subject to change.

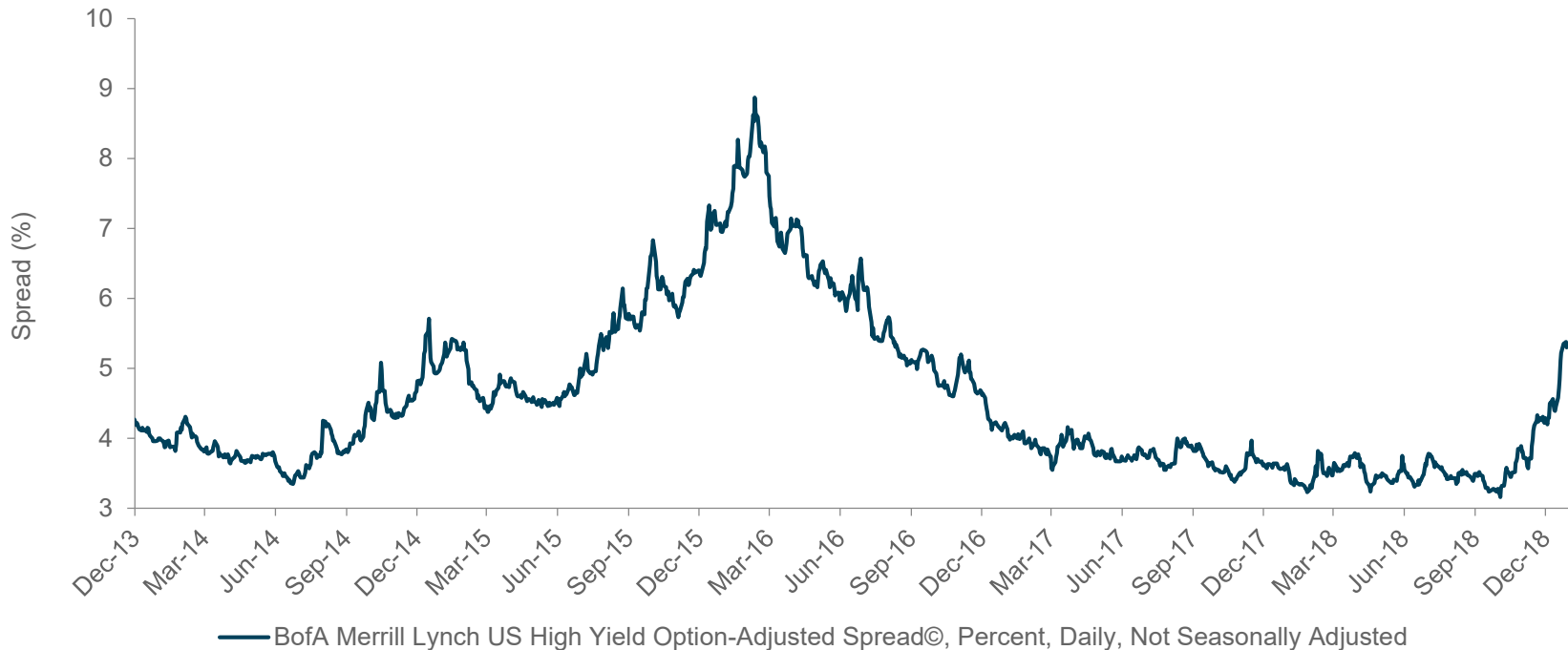
Investment Grade is any security rated by S&P BBB OR by Moody's Baa3 or higher.

\*2006 is the year that current Portfolio Manager, George Cipolloni, started managing the fund

# Mitigating Risk

## Underweight High Yield Bonds

- Credit spreads rose in Q4 to ‘average’ levels. Some limited opportunity but not 2016 levels
- Not getting paid to take risk...



Credit spreads are the basis point difference between a US Treasury security and different credit quality security with similar maturities. The BofA Merrill Lynch Option-Adjusted Spreads (OASs) are the calculated spreads between a computed OAS index of all bonds in a given rating category and a spot Treasury curve. An OAS index is constructed using each constituent bond’s OAS, weighted by market capitalization. The BofA Merrill Lynch High Yield Master II OAS uses an index of bonds that are below investment grade (those rated BB or below).

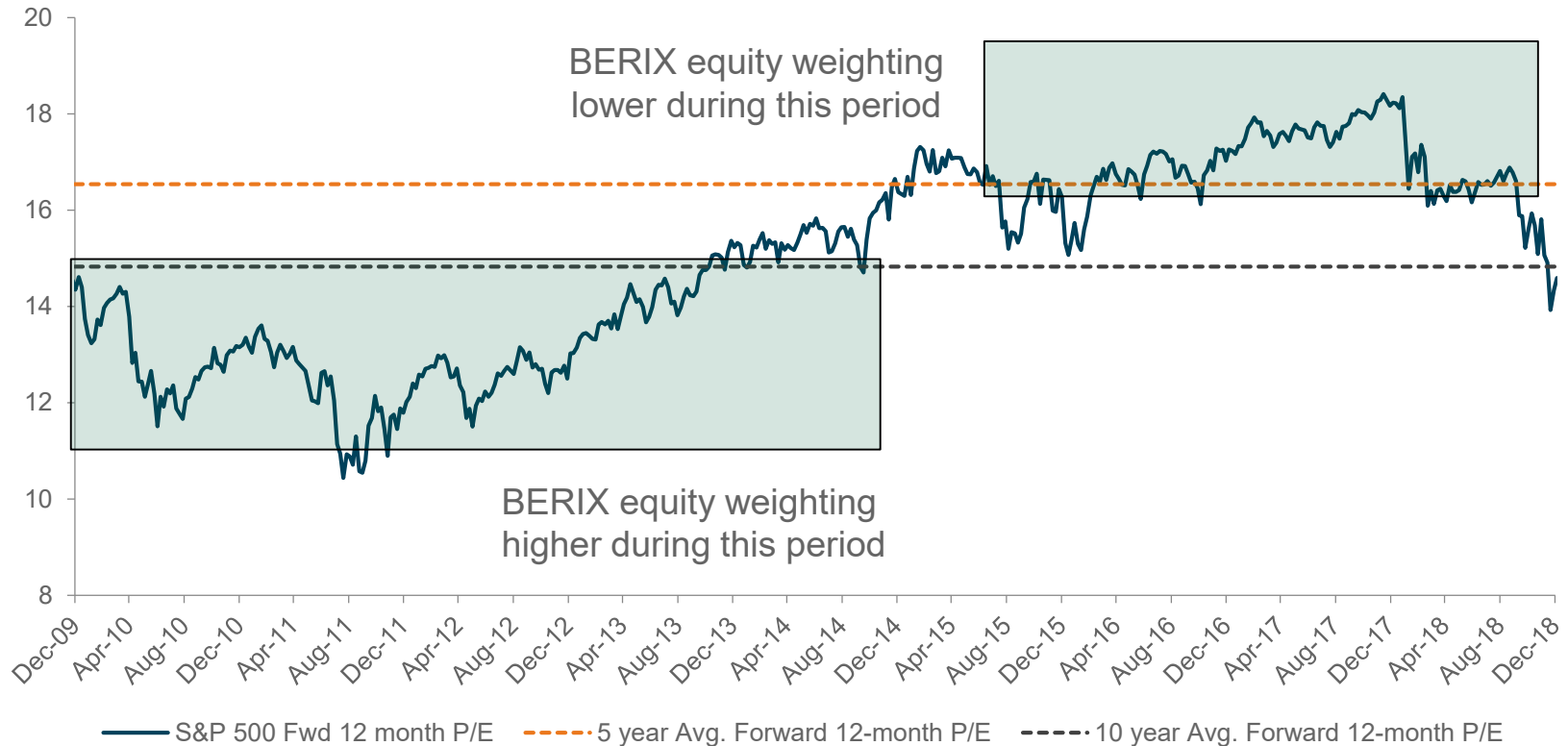
Source: BofA Merrill Lynch

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# Mitigating Risk

## Underweight Equities as of December 31, 2018

- At elevated valuations, margin of safety tends to be less than what we are comfortable with



P/E Ratio -The price-to-earnings ratio, or P/E is the ratio of the market price of a company's stock to its earnings per share (EPS).

Source: Bloomberg

Past performance is no guarantee of future results.

# Summary

## IDENTIFYING OPPORTUNITY

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### Short Term Bonds

Offers Fair Yield and Low Risk

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### Individual Holdings

Long-term view of out-of-favor securities

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### Patience

High Liquidity Positioning can Benefit if/when  
Volatility Increases

## AVOIDING RISK

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### Underweight Long Duration Bonds

Offers Low Yield / High Duration Risk

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### Underweight High Yield Bonds

Offers Low Yield / High Credit Risk

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### Underweight Equities

High Valuations = High Expectations

 We believe that Flexibility and Contrarian thinking are required to take advantage of various market cycles 



## Equity

Largest Positions as of December 31, 2018

| Company                   | Sector                 | % of Fund    |
|---------------------------|------------------------|--------------|
| Xperi Corp.               | Information Technology | 1.90%        |
| CoreCivic Inc.            | Real Estate            | 1.20%        |
| Molson Coors              | Consumer Staples       | 1.10%        |
| Tate & Lyle               | Consumer Staples       | 1.10%        |
| Viacom Inc.               | Communication Services | 1.10%        |
| Nokia Corp.               | Information Technology | 1.00%        |
| AT&T Inc.                 | Communication Services | 1.00%        |
| Gold Resource Co.         | Materials              | 0.90%        |
| Jefferies Financial Group | Financials             | 0.80%        |
| Newell Brands Inc.        | Consumer Discretionary | 0.80%        |
|                           | <b>Total</b>           | <b>10.9%</b> |

Source: Chartwell

Holdings are subject to change at any time. The most current available data regarding portfolio holdings can be found on our website, [www.chartwellip.com](http://www.chartwellip.com).

Percentage based on net assets as of close of business.

## Fixed Income

Largest Positions as of December 31, 2018

| Company               | Sector                 | Maturity      | % of Fund    |
|-----------------------|------------------------|---------------|--------------|
| Sherwin-Williams      | Materials              | 20-May        | 2.60%        |
| Constellation Brands  | Consumer Staples       | 19-Nov        | 2.50%        |
| Nuance Communications | Information Technology | 1-Nov         | 2.40%        |
| Becton Dickinson      | Health Care            | 19-Dec        | 2.40%        |
| HP Enterprise         | Information Technology | Oct-19        | 2.30%        |
| Sanmina Corp.         | Information Technology | 19-Jun        | 2.30%        |
| Newmont Mining        | Materials              | 19-Oct        | 2.20%        |
| Allegiant Travel      | Industrials            | 19-Jul        | 2.20%        |
| Pitney Bowes Inc.     | Industrials            | Mar-43 (pref) | 2.00%        |
| RLJ Lodging TR        | Real Estate            | N/A (pref)    | 1.90%        |
|                       | <b>Total</b>           |               | <b>22.8%</b> |

Source: Chartwell

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Percentage based on net assets as of close of business.

## Disclosures

*An investor should consider the investment objectives, risks, and charges and expenses of the Fund carefully before investing. The Fund's prospectus contains this and other information about the Fund and should be read before investing. The Fund's prospectus may be obtained by downloading it from [www.chartwellip.com](http://www.chartwellip.com) or by calling 1-888-995-5505. The Berwyn Funds are distributed by Foreside Fund Services, LL*

*The Fund acquired the assets and liabilities of the Berwyn Income Fund (the "IMST Predecessor Fund"), a series of Investment Managers Series Trust, on July 17, 2017. The IMST Predecessor Fund acquired the assets and liabilities of the Berwyn Income Fund (the "Berwyn Funds Predecessor Fund," and together with the IMST Predecessor Fund, the "Predecessor Funds"), a series of The Berwyn Funds, on April 29, 2016. As a result of the reorganizations, the Fund is the accounting successor of the Predecessor Funds. Performance results shown reflect the performance of the IMST Predecessor Fund for the period from April 29, 2016 through July 17, 2017, and the performance of the Berwyn Funds Predecessor Fund for the period prior to April 29, 2016. The Predecessor Funds' past performance is not necessarily an indication of how the Fund will perform in the future.*

*Wholesaling and marketing efforts are provided by, among others, Chartwell TSC Securities Corp., an affiliate broker dealer, member FINRA. Chartwell Investment Partners, LLC and Chartwell TSC Securities Corp. are both wholly owned subsidiaries of TriState Capital Holdings, Inc.*

Investing in any mutual fund involves risk, including the risk that you may lose all or part of the money you invest. The Berwyn Income Fund invests in both fixed-income and equity securities. The Fund's investments in fixed-income securities are subject to such risks as: interest rate risk; call risk; default risk; high-yield (junk bond) risk; and unrated bond risk. The Fund also invests in equity securities which carry the potential for unpredictable drops in value and periods of lackluster performance. For additional information on these risks and other related risks (non-principal), please review the full prospectus.

One cannot invest directly in an index.

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