



## INVESTMENT UPDATE

This month marks the fifteen-year anniversary of the formation of Agincourt Capital Management. On the morning of September 22, 1999, the firm began operating under the "Agincourt" name, the same day we resigned from our previous firm, Sovran Capital Management, and its parent company, Bank of America. That was an auspicious day for us, and could best be compared to jumping out of an airplane without knowing whether your parachute would open. After all, while we had told our clients that we were in negotiations with Bank of America to buy the firm, we were prevented from talking about what might happen if those negotiations broke down...and they did.

Fortunately, those chutes did open; most of our previous clients made the decision to follow our investment team (and, importantly, our excellent support staff) to this brand-new firm. Not surprisingly, our new name wasn't the most popular feature of the new firm (quote from anonymous client: "We're sticking with you guys, but you've got to change the name!") but after the first day or two, we knew that Agincourt would have the critical mass of clients to ensure that the firm would be viable, if not immediately profitable. We will be eternally grateful to those clients who signed on with us, almost all of whom we are proud to say are still with us.

Our intention, from day one, was to be a highly-focused firm, managing investment grade bond portfolios for a limited number of institutional clients. It was enough for us, then and today, to emphasize quality over quantity. We wanted to invest in people and systems to better serve our exiting clients rather than adding new products or hiring a team of marketers to "gather assets."

Sovran Capital had always operated as a "lean and mean" organization, perhaps even to a fault, so once we were free to structure the firm without interference from a corporate parent, our first move was to beef up our corporate credit analysis team. We soon hired Stacey Margolis and Cathy Temple, who joined our head credit analyst Bill Putnam to form a three-person team to provide in-depth fundamental credit analysis to identify the strongest corporate issuers across every industry. That turned out to be a timely move, as corporations had been borrowing like crazy to fund the expansion

of their operations that would be needed in the New Economy (remember that one?), culminating in the post-dot-com credit crisis of 2000-2001. Many of our competitors were overexposed to financial manipulators like Enron and Global Crossing, while our credit team's hard work (and a bias for "real" earnings) steered us clear of the biggest sinners during this unhappy period.

Tragically, we lost Bill Putnam in the summer of 2004, when he suddenly passed away after a brief illness. We still mourn Bill's death, and feel his absence every day. We hired Ryon Acey a few months after Bill's passing to take over the industries previously covered by Bill. With Ryon joining Cathy and Stacey, our credit team was once again solid, and proved their skill in navigating through the period leading up to, and throughout the Great Recession, including the collapse of Lehman Brothers in September of 2008 (now six years ago!). We are extremely proud of the role our credit team has played in helping us to produce superior risk-adjusted returns over what has often been an extremely challenging environment over the past decade and a half. Just this year, Ryon moved over to our mortgage team in order to broaden his portfolio management capabilities, with "new guy" (he has 10+ years experience) Chris Haberlin taking over Ryon's slot. Our corporate credit team has never been stronger.

Agincourt has changed with the times, but there have been occasions when we've resisted change, for the benefit of our clients. As an example, in the mid- to late-2000s, when Wall Street was at its hubris-y best (or worst, depending on your viewpoint) we were told that traditional credit analysis was *déclassé*. Brokerage firms were pushing their own trading desks (and by extension, their customer base) to move away from traditional "cash" corporate bonds and invest instead in credit derivatives. Why invest in individual bonds, they asked, when you can buy a simulated basket of corporate bonds rolled into a tidy *legal contract posing as a group of bonds*? Obviously, there was money to be made by Wall Street in the packaging and remarketing of these securities, but also by diverting resources away from their traditional published research and into higher-margin proprietary credit and mortgage derivatives products. Research would be focused on boosting their own trading desks' profits.

Fortunately, with a healthy dose of skepticism for Wall Street "innovations" and a beefed-up credit team of our own, we were in an advantageous position. We were able to continue with the tried-and-true process of analyzing the creditworthiness of high-grade corporate bonds in the cash markets. Avoiding the credit derivatives market also meant that Agincourt didn't have to worry about counterparty risk from having hundreds of millions of our clients' dollars committed to the various brokerage houses who packaged the derivatives contracts. Again, some of our competitors were not so lucky.

Another area that has changed markedly since the formation of Agincourt is the actual mechanics of trading bonds. Unlike, for instance, the stock market, there has never been a physical, centralized exchange for fixed income securities. "Back in the day," if you wanted to buy or sell a block of bonds, you picked up the phone and made a number of calls to various brokerage firms to find out who might have the inventory of bonds you wanted to buy, or which firm might be interested in buying the bonds you wanted to liquidate. This was standard operating procedure, even in 1999. It was a time- and labor-intensive process, and required our entire portfolio management team to man the phones at certain times in order to get trades done "in competition." Since then, Wall Street has, in fits and starts, adopted an internet-driven model where we can now search inventories online to see where bonds are available, and equally importantly, who has interest in buying bonds we might be interested in selling. In real time, we can monitor the prices and quantities of where specific bonds are trading, a huge advance over the rumor and obfuscation that once was considered "price discovery" in the prehistoric days of the early 2000's. And with the click of a mouse button, we can buy or sell bonds in nearly any quantity, with any number of brokerage firms competing for our business.

Likewise, the "back-office" function at Agincourt has been transformed over the past fifteen years. Even in the late 1990s, most trades were still settled by faxing trade information to the custodians and brokers we dealt with. Not only was this a cumbersome and time-consuming task, on busy days, it wasn't unusual for trades to "fail" as the brokerage firms, in particular, couldn't process all the paper tickets. Today, the process is nearly automated—our internal portfolio management system generates paperless trade tickets and batches them together, sending them out in secure electronic form. This happens virtually in real-time, where trade information—quantity, price, settlement date, "net money," and so on—is automatically matched, and the trade is confirmed, as easy as buying a new pair of shoes online, simply by clicking

a mouse button.

All the new technology in the settling of trades, in addition to speeding up work flow and minimizing mistakes, has had one other extremely important benefit: It has enabled our operations team to focus on reconciling positions in client portfolios every day with their custodians, pretty much down to the penny. In years past, we would reconcile the holdings in each portfolio every month-end. With our internal portfolio software now "speaking" to the systems at the custodian banks, positions can be reconciled every day. Further, all cash flows—coupon payments, prepayments on mortgage-backed securities, maturities, not to mention cash contributions or client withdrawals—all are reconciled with the custodians due to integration of our system and theirs. This is a degree of accuracy and integration that was literally impossible fifteen years ago.

Obviously, the smooth operation of firms like Agincourt is dependent on talented people, and we are lucky to have a group of smart, hard-working and dedicated professionals who make up our operations team. This group is headed by Laura Haynie and Erika Banks, both of whom have been with Agincourt since its inception. Laura primarily serves our clients and their consultants with timely reports and data (and assists with compliance) while Erika is "Ms. Inside," responsible for our systems as well as overseeing the team responsible for trade settlements and other vital operations functions. Agincourt, quite literally, could not operate without them.

Speaking of invaluable people, we also want to highlight Shannon Borum, who was hired shortly after Agincourt was founded. Shannon has worn many hats in the past fifteen years, working her way up from her first job in trade operations to become our main bond trader, while earning her CFA designation along the way. When clients request funds or give us additional money to invest, it's Shannon who does the essential and timely work of rebalancing portfolios.

Obviously, we are extremely proud of our staff—especially the folks that our clients don't often get to meet—and the vital work they perform every day for our clients. But we are even more grateful to our clients for the trust and confidence they have placed in us. With all the changes we've witnessed over the past decade and a half, the one thing that hasn't changed is Agincourt's commitment to our clients.

Everyone on our team would like to take this opportunity to thank our clients, as we look forward to serving them, to the very best of our abilities, for the next fifteen years.