



Saturday, April 27, 2019

April 2019 Investor Report

April continued several prevailing trends of the last several months. The S&P 500 was up over 3 percent, the Dow Jones was up over 2 percent, and the NASDAQ Composite was up nearly 5 percent. Fortunately, as mentioned in March, all of this suggests that the likelihood of a recession this calendar year is quite small. Certainly, phenomena such as yield curve inversion, trade disruptions, and Brexit will continue to impact the overall state of the economy, but this month brought additional assurances of economic health.

April Consumer Confidence – The latest University of Michigan survey produced a strong score of 97.2. The report found that 44 percent of consumers said they were feeling better about their financial prospects for the year ahead. 44 percent is the highest level since 2004

1st quarter GDP – The key economic figure is projected at 3.2 percent year-over-year growth. This initial number was well ahead of Wall Street estimates of 2.2 percent y-o-y growth. The markets' response was lukewarm. Growth of Inventory stockpiles has now reached a material inflection point. As observed towards the end of 2018, inventory levels were high (seasonally adjusted) as businesses, for the preceding several quarters, pushed to get supplies into the country ahead of more tariffs. Inventories that rise help the GDP, in the short run, as inventory growth counts as investment. This abnormally large inventory now needs to be sold before any material production starts. Weak manufacturing payrolls and a collapse in imports support this interpretation.

Final Sales of Domestic Purchasers – This important metric excludes changes in inventory and trade (the two most volatile components of GDP) to provide a steadier picture of what US residents are actually spending (domestic demand). This figure is provided with the quarterly GDP reports and is often overlooked. For the first quarter, final sales of domestic purchasers showed a growth of 1.4 percent year-over-year. This growth rate represents the third consecutive quarter of slowing growth and the lowest point since 2015. This growth rate is far afield of the 3.2 percent GDP growth report, but reflects growth nonetheless

Please review the following updates from some of the existing positions that we manage.

BNCCorp Inc. — (BNCC): The company announced a standstill agreement with PL Capital and installed John Palmer on its Board. We believe this indicates a move toward a sale of the bank. Consistent with years past, we expect an Annual Meeting to take place in late June, with a sale announcement before this meeting. If no sale announcement occurs and the Annual Meeting still takes place, Tracy Scott, the former Chairman of the Bank and co-founder, runs the risk of not receiving enough shareholder votes.

Separately, the company reported first quarter earnings and they were as good as expected. With interest rates falling across the board, the long-dated assets that the bank owns (approximately \$1 Billion) moved up in price.

Enviva Partners Bond due November 2021 — (CUSIP: 29413XAB3): On April 2, Enviva announced that it completed a drop-down transaction with its sponsor. The transaction was financed with a mix of common stock issuance and use of the credit facility. The asset is a wood pellet production plant under construction in Hamlet, North Carolina. This asset comes with a firm 15-year take-or-pay contract increasing sales volume by approximately 500,000 metric tons per year to Enviva Partners. Also, we expect Enviva to complete its acquisition of a deep-water marine terminal in Wilmington, North Carolina. This terminal will handle the above contracted volumes from the Hamlet plant. Short to intermediate term growth is still being projected for Enviva.

Unit Corporation Bond due May 2021 — (CUSIP: 909218AB5): Unit Corporation received a vote of confidence from Moody's as they upgraded the outlook of the company from stable to positive. Per Moody's: "the outlook change reflects our view that Unit will continue to maintain fiscal discipline and make steady progress in all of its three business segments in 2019 even if commodity prices do not materially improve from today's levels. The company's contracted high-quality BOSS rigs, predictable midstream cash flow, and substantially hedged 2019 oil and gas production should provide excellent downside protection." We agree with Moody's assessment. We believe Unit Corp will look to refinance our bonds shortly.

Oxford Square Capital Bond due April 2024 – (Ticker Symbol: OXSQL): In late March/early April, the Company announced and executed another debt offering. Terms were 6.25 percent coupon for seven years (maturity year 2026). Our 6.5 percent coupon paper maturing in March 2024 is superior and suggests that the company was able to borrow at a cheaper rate over a longer time. The primary credit market believes the company's performance has improved and we concur.

Best regards,



Stash J. Graham