Covered Call Commentary

September | 2022

An Attractive Fixed Income Alternative

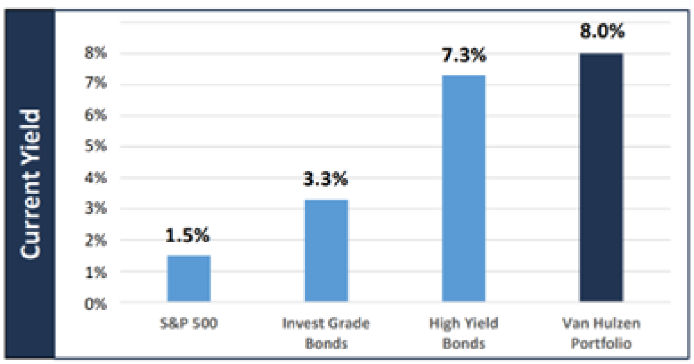
The 40 year bull market in bonds is over. There is no debate about this. After delivering an average annual return of 7.4% since 1982, investment grade bonds are down a whopping 18% year to date, through September 30. Long term treasuries are even worse. This has devastated retirement accounts and pension plans. And to add salt to the wound, Morningstar is projecting average bond returns of approximately 3% over the next decade, as excesses continue to be squeezed out of the market. Not only is this significantly below the current inflation rate.

Clearly, investors need better alternatives for their fixed income allocations. We believe our strategy is ***the best*** alternative available.

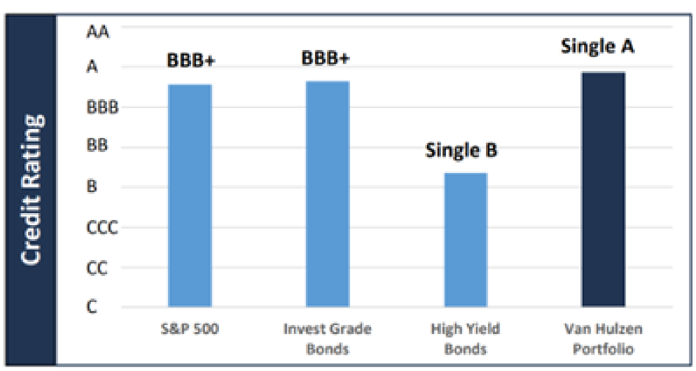
Yield, Risk & Return

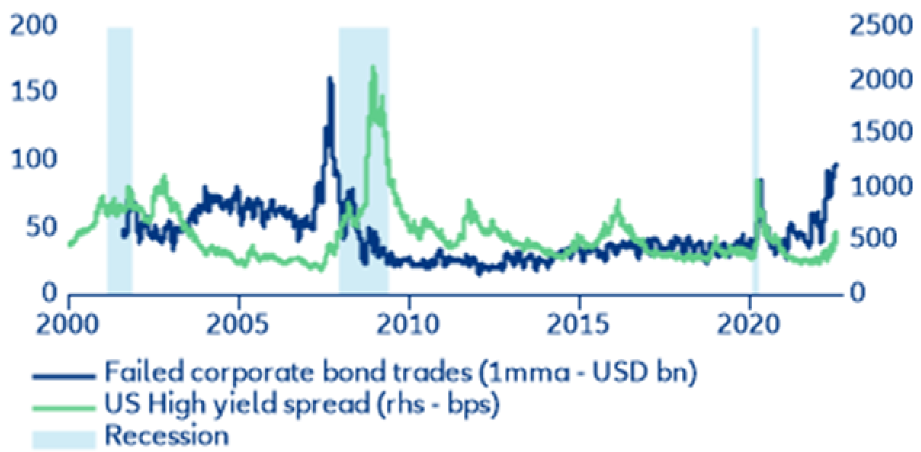
There are three critical factors to assess when considering a fixed income investment: yield, risk and total return.

1. **Yield.** Yield seeking investors are faced with a dilemma. Are they willing to assume more risk to meet their yield targets? High yield (junk) bonds are yielding more than 7% now, but credit spreads are still historically low, signalizing potential over-confidence. Danger awaits further out the risk curve. See section 2.



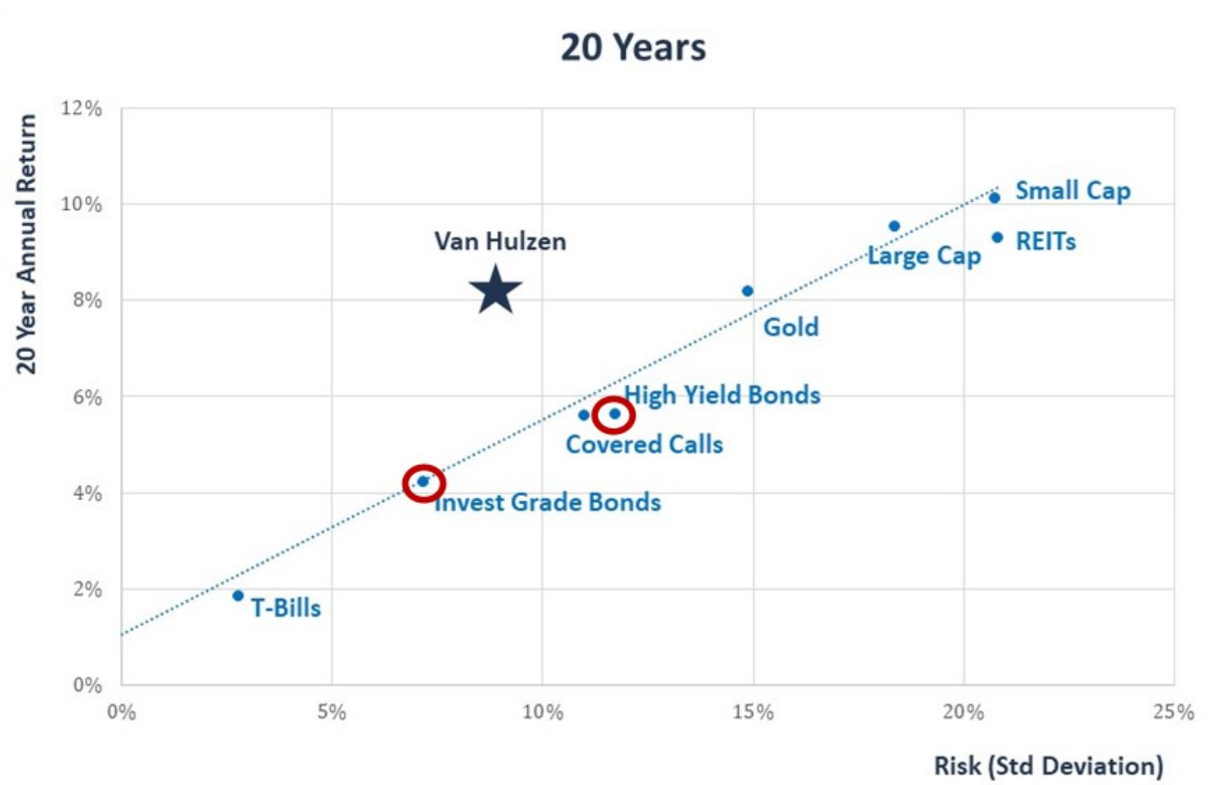
2. **Risk.** Moving from investment grade bonds to high yield bonds reduces credit quality from BBB+ to Single B, or worse. And with 19% of US companies fitting the "zombie" definition now (meaning they struggle to make their interest payments, much less pay down any principal), defaults are almost certainly around the corner. According to Allianz Research, failed corporate bond trades are now higher than the peak of the Covid crisis.





Source: Allianz Research

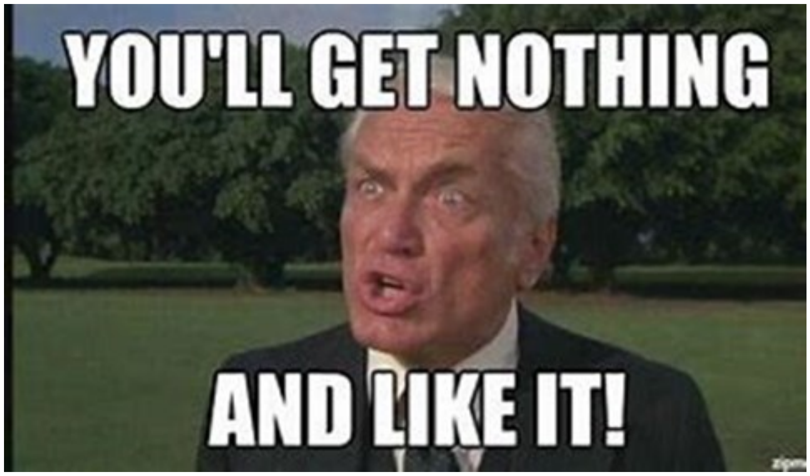
3. **Total return.** Total return is especially important when analyzing high yield bonds, as yield alone will not factor in the impact of defaults. Over the past 20 years, investment grade bonds have delivered a total return of 4.2%, including this year's collapse. High yield bonds have delivered 5.6%, a better return but certainly falling short of its credit spread expectations. Not surprisingly, these returns place both categories roughly **at the market line** (see below). Van Hulzen's covered call strategy, on the other hand, has delivered a 20yr total return well **above** the market line. Our strategy's standard deviation is actually lower than that of high yield bonds. This is true alpha.



Data source: Portfoliovisualizer.com (T-Bills: Vanguard Short Term Treasury Fund (VFISX); Invest Grade Bonds: iShares Investment Grade Corporate Bond ETF (LQD); High Yield Bonds: Vanguard High Yield Corporate Fund (VWEHX); Gold: SPDR Gold Shares (GLD); Large cap: Vanguard 500 Index Fund (VFINX); Small Cap: Vanguard Small Cap Index Fund (NAESX); Vanguard REIT Index Fund (VGSIX

Q3 Review

Q3 had a strong start, with many markets rebounding nearly 20% off the June lows on optimism of a Fed pivot. But this quickly reversed when Chairman Powell stepped to the mic in Jackson Hole and did his best Judge Smails impersonation:



And so we ended the quarter even lower than where we started it. The S&P dropped -4.9%, with bonds losing about the same. The BXM (our covered call benchmark) was even worse: -7.6%. Our strategy outperformed the BXM by 2.2% in Q3.

From a portfolio perspective, high quality blue chips continue to lead the way. And our call positions proved their worth, providing valuable downside protection. Our top 5 winners for the quarter managed a 6.4% return in Q3 (net of their option hedge), while the worst performers (bottom 5) benefitted from protection of 600bp, on average. The core of the portfolio (middle of the pack) out-performed their hypothetical "stock-only" hurdle by an average of 3.2%. Our covered calls are doing their job.

Q3 2022

TOP WINNERS	Stock only	Cov Call	Incremental
Target (TGT)	16.9%	10.4%	-6.5%
Emerson (EMR)	12.3%	6.0%	-6.3%
Regions (RF)	8.0%	8.2%	0.2%
Walmart (WMT)	7.1%	4.8%	-2.3%
Eaton (ETN)	6.5%	2.4%	-4.0%
Average	**10.2%**	**6.4%**	**-3.8%**

Avg incremental return of -3.8%

TOP LOSERS	Stock only	Cov Call	Incremental
Comcast (CMCSA)	-24.8%	-17.6%	7.2%
Verizon (VZ)	-24.2%	-18.6%	5.5%
Applied Mat (AMAT)	-23.4%	-17.8%	5.5%
Kimberly Clark (KMB	-16.0%	-9.7%	6.3%
Meta (META)	-15.9%	-10.2%	5.6%
Average	**-16.5%**	**-10.8%**	**6.0%**

Avg incremental return of +6.0%

MIDDLE OF PACK	Stock only	Cov Call	Incremental
Merck (MRK)	-4.8%	0.1%	4.9%
Cisco (CSCO)	-5.4%	-2.5%	2.9%
JNJ (JNJ)	-6.9%	-3.2%	3.7%
Philip Morris (PM)	-7.5%	-4.8%	2.6%
Coke (KO)	-9.3%	-7.4%	1.9%
Average			**3.2%**

Avg incremental return of +3.2%

Taking Stock

Year to date, we have outperformed every major index, **including** the equity hedge fund index. We attribute this outperformance to two primary factors:

1. Our insistence on quality
2. Above average volatility (which typically benefits options strategies)

Year to date performance:

S&P 500	-23.9%
Nasdaq	-32.0%
Inv Grade Bonds	-14.6%
High Yield Bonds	-14.4%
HFRI Equity Hedge Index	-15.4%
Covered Call Index	-17.0%
Van Hulzen	**-13.8%**

Outlook

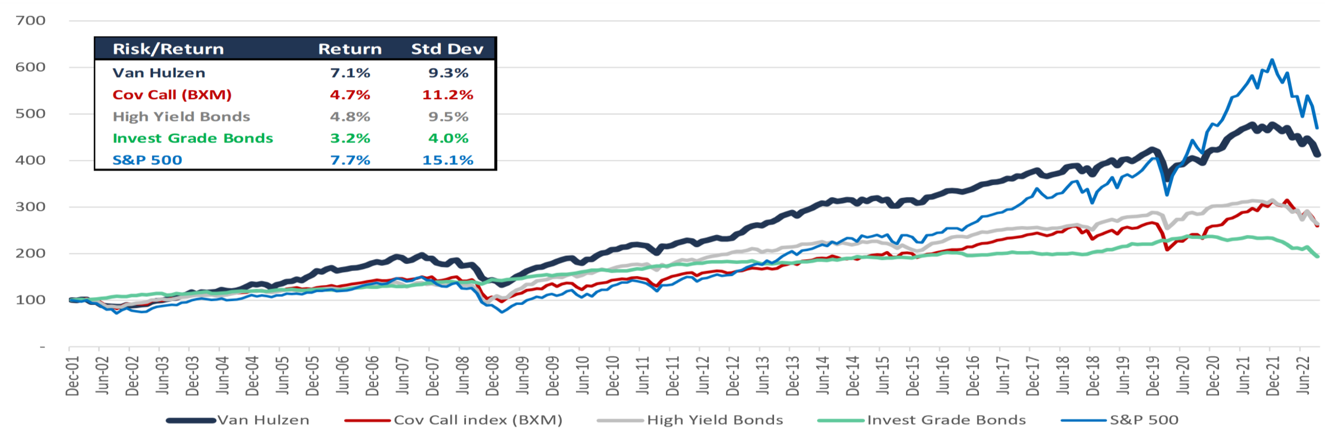
Our outlook has not changed. While we will likely see some relief rallies off Q3's recent weakness, nothing has changed in the macro environment. Inflation continues to come in hot, geopolitical conflict continues to impact supply, and the Fed is more hawkish than it has been in 40 years. Investors should be focused on **income and protection**.

Our strategy has always been an attractive solution for income-oriented equity investors. But today's macro environment has made us particularly attractive to fixed income investors as well. We welcome them to the fold.

Long Term Track Record

Van Hulzen Asset Management

Long Term Track Record (Through Sep 30, 2022)



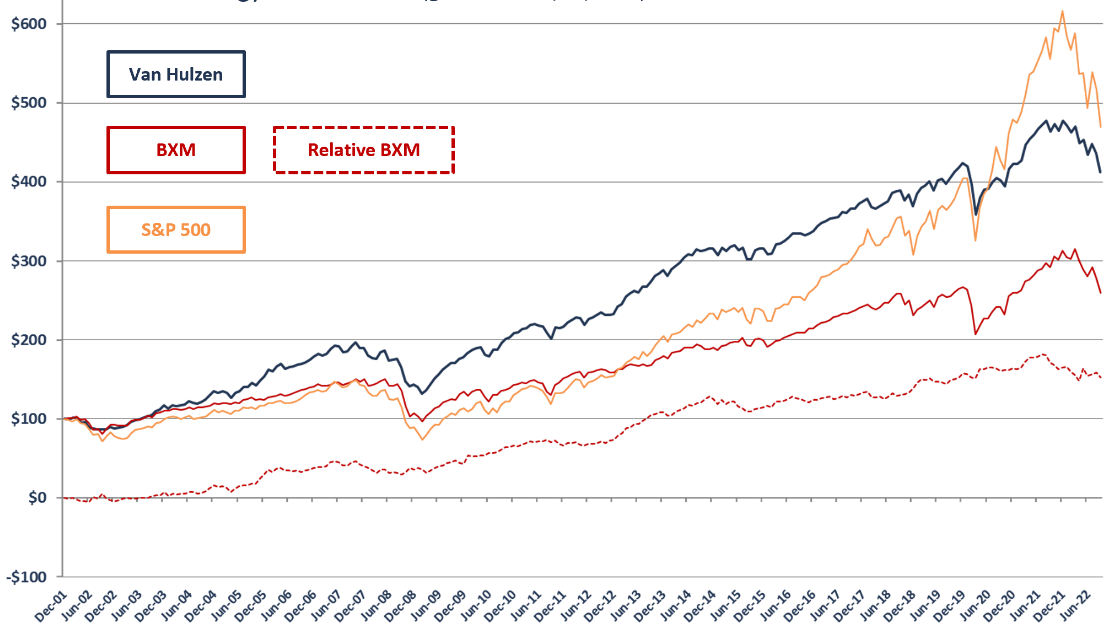
Alpha a = Rp – [Rf + (Rm – Rf) ß]	**Relative to...**			
	CC Index	**High Yield**	**Inv Grade**	**S&P 500**
Rp = Realized return of portfolio	7.1%	7.1%	7.1%	7.1%
Rm = Market return	4.7%	4.8%	3.2%	7.7%
Rf = risk-free rate	3.1%	3.1%	3.1%	3.1%
ß = Beta	0.7	0.7	2.4	0.5
Alpha	**2.9%**	**2.8%**	**3.6%**	**1.5%**

Note: There is no assurance that the Strategy will achieve its investment objectives. The use of covered call strategies does not ensure profits or guarantee against losses. VAM returns are presented gross of fees.

Van Hulzen Covered Call Strategy

The Van Hulzen Covered Call strategy invests in US companies that we consider to have high shareholder yield (dividends and share repurchases) and uses call options with the goal of reducing portfolio volatility and creating incremental income. The goal is a portfolio that has equity exposure while seeking higher than average annual income (target of 6-8% annual), although there is no guarantee that the strategy will achieve its objective, generate profits or avoid losses. Below you will find the graph of the Van Hulzen Covered Call Strategy and the Covered Call Index BXM.

Covered Call Strategy Performance (gross as of 09/30/2022)



Returns (annualized)*	Sep 2022	3M	6M	YTD	1 Year	3 Years	5 Years	7 Years	10 Years	Inception
Van Hulzen (Gross)	-5.6%	-5.3%	-12.4%	-13.8%	-11.1%	0.6%	2.4%	4.5%	5.8%	7.1%
Van Hulzen (Net)	-5.6%	-5.4%	-12.7%	-14.1%	-11.6%	0.0%	1.8%	3.9%	5.1%	6.2%
BXM	-6.6%	-7.6%	-17.7%	-17.0%	-11.2%	0.5%	1.9%	4.4%	4.8%	4.7%
Difference (Gross-BXM)	1.0%	2.3%	5.3%	3.2%	0.1%	0.1%	0.4%	0.2%	1.0%	2.4%

*Inception date : 12/31/2001. Figures greater than one year are annualized. Van Hulzen returns represent actual returns from composite of accounts

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