

Multi-Sector Opportunistic Strategy

MARKET OVERVIEW

The second quarter of 2020 witnessed an unprecedented global monetary and fiscal policy response to combat the most severe economic disruption since the Global Financial Crisis of 2008-2009 due to the COVID-19 pandemic. Policymakers responded forcefully with a series of maneuvers to restore function to financial markets and shield citizens from serious hardship as a result of the abrupt stop in economic activity. Programs were designed to support the newly unemployed, businesses of all sizes, states and municipalities, and several areas of the securitization markets. The ultimate human and economic toll is not yet known. However, our expectation remains that policymakers will fine-tune their response as warranted.

Stay-at-home orders and mandated business closings proved unambiguously damaging for local, regional, and global economic growth during the quarter; near-term corporate earnings results are likely to be negative. We are optimistic, however, that the trough in economic activity and corporate earnings will occur in the second quarter with a rebound in the second half of the year and into 2021. Progress has been made in restarting parts of the economy around the country and activity is rebounding, though a second disruptive shutdown remains a concern. Financial markets have reacted positively to the monetary and fiscal policy response, rebound in economic activity, and attractive valuations by moving aggressively higher during the period. We believe elevated cash levels and a high degree of personal savings will be a tailwind to growth in the coming quarters as everyone adjusts to a near-term new normal.

Spread sectors outperformed U.S. Treasuries during the quarter led by higher beta sectors such as corporate high yield, high yield bank loans, and emerging market (EM) debt. Within most sectors (with the exception of high yield), lower quality and longer duration outperformed. Corporate credit outperformed securitized sectors such as commercial mortgage-backed securities non-agency residential mortgage-backed securities (RMBS), and asset-backed securities (ABS).

We continue to see value in spread sectors. While there is no doubt that COVID-19 will prove disruptive to economies in the near term, we are confident that the crisis will be resolved with time. Our multi-sector approach to fixed income investing enables us to scan the bond market for the most attractive investment opportunities wherever they may be and is ideally suited for the current environment.

For more detail on the macroeconomic backdrop and specific sectors, please see Newfleet's [2Q20 Market Review & Outlook](#).

HOW THE STRATEGY PERFORMED

The Strategy returned 10.20% (gross of fees) in the second quarter versus the Bloomberg Barclays U.S. Aggregate Bond Index return of 2.90%.

Positive Contributors

- > Underweight U.S. Treasury and agency mortgage-backed securities and overweight spread sectors.
- > Allocation to, and issue selection within, non-agency RMBS. Securitized sectors, like most credit sectors, experienced a strong recovery. Stimulus programs have kept consumers in better shape than initially feared as furloughed employees return to work. For many, stay-at-home orders have dramatically increased the intrinsic value of residential real estate. In addition, subscription levels have far exceeded pre-COVID-19 levels as investors have cash that needs to get to work.
- > Allocations to the corporate high yield, bank loan, and investment grade corporate sectors. Issue selection within the investment grade corporate sector was a key driver of the sector's strong performance. The recovery in these sectors extended through the quarter as easing restrictions and additional policy support reinforced expectations that global activity has bottomed and will recover. The high yield asset class, in particular, saw robust inflows. In the investment grade space, fund flows returned to positive territory, foreign demand picked up, and the Fed's intervention has introduced a large buyer to the market.

Detractors

- > Although the overall allocation to, and selection within, investment grade corporates contributed positively to performance, the Strategy's underweight relative to its benchmark was a detractor for the quarter as the investment grade corporate sector was among the top-performing sectors during the period.

CURRENT STRATEGY POSITIONING

Sector Changes: We reduced exposure to cash, U.S. Treasuries, non-agency RMBS, and taxable municipal bonds. We increased exposure primarily to corporate high yield and corporate high quality securities.

Non-U.S. Exposure: We increased the overall non-U.S. and EM debt exposure. Total non-U.S. exposure remains well below historical averages, and our total EM country exposure is below the six-year average for the Strategy. Given the global spread of COVID-19 and downward revisions to global growth, we have shifted our EM bias from buy to hold as we continue to evaluate an optimal country mix and trade up in liquidity. We are using this volatile and uncertain time in the markets to look for names we believe are undervalued yet can sustain the current macro backdrop. We continue to favor sovereigns in larger capital structures and emphasize high grade over high yield (though the high yield component has increased over the quarter where returns had lagged) and hard currency over local market exposure.

Corporate High Quality: Spreads within the sector retraced 80% of their first quarter widening. With the Fed serving as a backstop and incremental buyer of securities, the market completely opened up with second quarter issuance the highest on record with gross supply of \$834 billion. The rating agencies, which have downgraded over \$100 billion of securities to the high yield market, have paused their downgrade activity and appear to be giving issuers the time required to adjust to the new environment. We believe the Fed stepping in to eliminate a disorderly downgrade cycle fundamentally changes the equation for the high quality sector and we feel comfortable adding to risk positions in this sector. While we continue to favor BBB issuers, we are finding ratings to be less relevant amid the turmoil. Opportunities are materializing across the board and we are targeting names with strong liquidity, resilient earnings, and high free cash flows. While we are generally industry agnostic in this environment, the portfolio remains positioned with a heavy banking component and a quickly growing utility exposure.

Corporate High Yield: The market had a particularly strong quarter as a result of fiscal and monetary policy stimulus plus attractive valuations. While dispersion in valuations has been reduced, the market still remains bifurcated between names exposed to COVID and those that are not. We were very active in the new issue market given attractive new issue concessions and valuations, adding names both in industries that are exposed to COVID and those that are not. For COVID-exposed names, we generally targeted names with significant liquidity and/or had security attached to the bonds. We also increased exposure to energy, although generally in lower-risk parts of the industry such as midstream and refining rather than highly leveraged oil and gas producers. The Strategy remains underweight energy exposure relative to the corporate high yield index.

Securitized Product: The recovery in the securitized sectors was driven by the swift and large actions of the Fed coupled with fiscal stimulus plans directly aimed to benefit consumers. However, not all components of the securitized space had a direct benefit. This allowed us to use the volatility to take advantage of dislocations due to the lack of a direct response from the Fed. This included sub-prime auto ABS and all non-agency RMBS. Valuations were attractive throughout most of the quarter as prices lagged the quick turnaround of investment grade corporate bonds. Many of the securities we own are first or second pay, meaning we receive all cash on a prioritized basis versus other classes in the deals. The securitized product component of the portfolio continues to offer a significant yield pickup to comparable U.S. Treasury securities. The portfolio is diversified by asset type, obligor, and geographic region. It is of higher quality and short term in nature.

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OUTLOOK

As always, we believe it is important to stay diversified, have granular positions, and emphasize liquid investments. The coronavirus, like other events that trigger volatility in the market, can affect valuations and create opportunities that we can take advantage of in the course of implementing our multi-sector relative value approach. We highlight the importance of credit selection and positioning in the current environment. Given the widening in spreads late in the first quarter of 2020, valuations had cheapened substantially, and we continue to identify opportunities in spread sectors, including those within non-investment grade sectors that we have added to and may continue to add to in the portfolios. Even with the recovery since the end of March, valuations look attractive in many spread sectors that we believe offer some of the best total return and yield opportunities in fixed income. Some of the specific sectors where we are finding the best relative value opportunities are corporate high yield, investment grade corporates, EM debt, out-of-index/off-the-run ABS, and non-agency RMBS.

PORTFOLIO MANAGEMENT



David L. Albrycht, CFA
Industry start date: 1985



Benjamin Caron, CFA
Industry start date: 1997

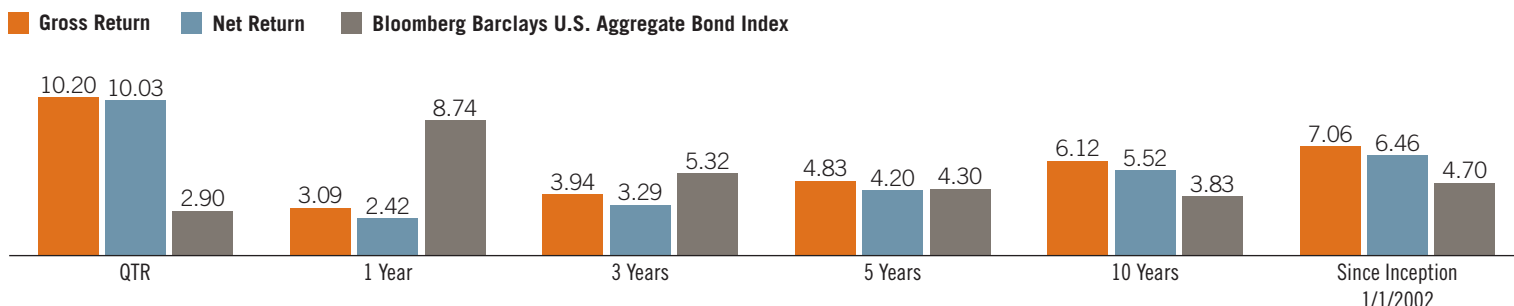


Stephen H. Hooker, CFA
Industry start date: 1993

FIRM OVERVIEW

Newfleet leverages the knowledge and skill of a team of investment professionals with expertise in every sector of the bond market, including evolving, specialized, and out-of-favor sectors. The team employs active sector rotation and disciplined risk management to portfolio construction.

PERFORMANCE (%)



Periods ended 6/30/20. Time periods over one year are annualized. **Past performance is not indicative of future results.** Net return is shown net of maximum management fees.

The Bloomberg Barclays U.S. Aggregate Bond Index is a broad-based benchmark that measures the investment grade, U.S. dollar-denominated, fixed-rate taxable bond market, including Treasuries, government-related and corporate securities, MBS (agency fixed-rate and hybrid ARM pass-throughs), ABS, and CMBS. The index is unmanaged, its returns do not reflect any fees, expenses, or sales charges, and is not available for direct investment.

INVESTMENT OPPORTUNITY

We believe that active sector rotation and superior security selection, combined with disciplined risk management, are the most effective means of achieving excess returns in the fixed income market. Relative valuation drives our approach. We strategically overweight undervalued sectors and purchase securities that meet rigorous investment criteria that take into account credit risk, management quality, issue structure, and technical market conditions. The process relies on intensive fundamental analysis.

The strategy seeks to generate high current income and total return by investing in securities across 14 fixed income sectors.

Multi-Sector Opportunistic has a maximum allocation to non-investment grade securities of 65% and maximum non-U.S. exposure of 50%. The average duration historically has ranged from three to six years.

INVESTMENT PROCESS

STEP 1 Sector Analysis and Allocation

- Top down, relative value approach
- Relative value analysis looks at: yield and spreads; supply and demand; investment environment; sector fundamentals

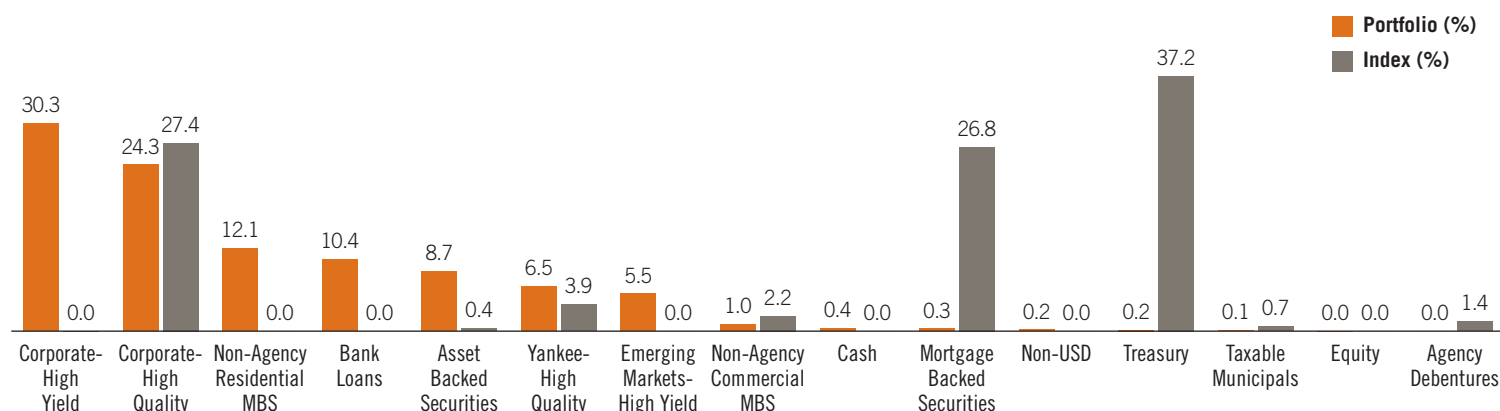
STEP 2 Issue Selection

- Bottom up, fundamental research driven
- Fundamental analysis includes assessment of: credit risk, company management, issue structure, technical market conditions, focus on valuations

STEP 3 Portfolio Construction, Oversight, and Risk Management

- Duration neutral strategy
- Manager review
- Sector concentration
- Systematic review
- Issuer exposure: maximum 5%, average <1%

SECTOR ALLOCATION



RISK STATISTICS

	1 Year		3 Years		5 Years		10 Years		Since Inception 1/1/2002	
	Portfolio	Index	Portfolio	Index	Portfolio	Index	Portfolio	Index	Portfolio	Index
Sharpe Ratio	0.18	1.96	0.32	1.08	0.58	1.01	0.93	1.08	0.89	0.97
Alpha (%)	-9.02	0.00	-0.56	0.00	1.21	0.00	3.39	0.00	3.07	0.00
Beta	1.64	1.00	0.85	1.00	0.83	1.00	0.67	1.00	0.79	1.00
R-Squared (%)	22.04	100.00	12.64	100.00	14.29	100.00	10.59	100.00	17.39	100.00
Standard Deviation (%)	12.28	3.50	7.56	3.23	6.52	3.05	5.90	2.93	6.36	3.39
Tracking Error	11.29	0.00	7.19	0.00	6.14	0.00	5.72	0.00	5.90	0.00
Information Ratio	-0.50	NA	-0.19	NA	0.09	NA	0.40	NA	0.40	NA

RATINGS DISTRIBUTION¹ (%)

	Portfolio	Index
Aaa	8.50	69.72
Aa	3.88	3.49
A	9.96	12.42
Baa	31.75	14.36
Ba	19.72	0.01
B	16.62	0.00
Caa	4.93	0.00
Ca	0.46	0.00
C	0.04	0.00
D	0.04	0.00
Not Rated	3.72	0.00
Cash	0.38	0.00

MATURITY (%)

	Portfolio	Index
Under 3 Years	19.13	25.16
3-5 Years	23.68	33.68
5-10 Years	48.27	21.78
Over 10 Years	8.92	19.39

DURATION (%)

	Portfolio	Index
Under 3 Years	34.42	40.63
3-5 Years	23.75	22.72
5-10 Years	38.69	18.27
Over 10 Years	3.13	18.40

PORTFOLIO CHARACTERISTICS

	Portfolio	Index
Duration	4.44 yrs	6.04 yrs
Yield to Worst	5.20%	1.25%

Sector and ratings distributions are subject to change. Results presented are that of a representative portfolio and are presented as supplemental information to the GIPS Compliant Presentation presented on page 4. Risk statistics are that of the Composite.

Index: Bloomberg Barclays U.S. Aggregate Bond Index

¹The ratings issued by Nationally Recognized Statistical Rating Organizations assess the credit worthiness of a corporation's or government debt issues. The ratings apply to the fund's holdings and not the fund itself. The higher of the ratings between Moody's, Standard & Poor's, and Fitch is used. If one of the three agencies does not have a rating, the higher of the other two ratings is used. If only one agency has rated the bond, the rating from that agency is used. If none of the three agencies have rated the bond, the bond is placed in the Not Rated category.

RISK CONSIDERATIONS

Credit & Interest: Debt securities are subject to various risks, the most prominent of which are credit and interest rate risk. The issuer of a debt security may fail to make interest and/or principal payments. Values of debt securities may rise or fall in response to changes in interest rates, and this risk may be enhanced with longer-term maturities. **Foreign & Emerging Markets:** Investing internationally, especially in emerging markets, involves additional risks such as currency, political, accounting, economic, and market risk. **High Yield-High Risk Fixed Income Securities:** There is a greater level of credit risk and price volatility involved with high yield securities than investment grade securities. **ABS/MBS:** Changes in interest rates can cause both extension and prepayment risks for asset- and mortgage-backed securities. These securities are also subject to risks associated with the repayment of underlying collateral. **Bank Loans:** Loans may be unsecured or not fully collateralized, may be subject to restrictions on resale and/or trade infrequently on the secondary market. Loans can carry significant credit and call risk, can be difficult to value and have longer settlement times than other investments, which can make loans relatively illiquid at times. **Market Volatility:** Local, regional, or global events such as war, acts of terrorism, the spread of infectious illness or other public health issues, recessions, or other events could have a significant impact on the portfolio and its investments, including hampering the ability of the portfolio manager(s) to invest the portfolio's assets as intended.

MULTI-SECTOR OPPORTUNISTIC COMPOSITE GIPS COMPOSITE REPORT

Year End	Total Firm Assets (billions)	Composite Assets		Annual Performance Results					
		U.S. Dollars (millions)	Number of Accounts	Composite			Benchmark†		Composite Dispersion
				Gross	3 Yr Ann Std Dev	Net	Return	3 Yr Ann Std Dev	
2019	10.6	1,127	Five or fewer	12.21%	2.88%	11.49%	8.72%	2.87%	N.A.
2018	10.4	865	6	-2.50%	3.55%	-3.12%	0.01%	2.84%	N.A.
2017	12.0	724	Five or fewer	8.00%	3.96%	7.41%	3.54%	2.78%	N.A.
2016	11.7	610	Five or fewer	11.04%	4.51%	10.44%	2.65%	2.98%	N.A.
2015	11.4	502	Five or fewer	-0.63%	4.45%	-1.17%	0.55%	2.88%	N.A.
2014	12.6	584	Five or fewer	2.71%	4.60%	2.15%	5.97%	2.63%	N.A.
2013	12.3	606	Five or fewer	3.28%	5.60%	2.71%	-2.02%	2.71%	N.A.
2012	10.8	750	Five or fewer	15.52%	5.92%	14.89%	4.22%	2.38%	N.A.
2011	8.1	470	Five or fewer	4.06%	7.48%	3.49%	7.84%	2.78%	N.A.
2010	*	441	Five or fewer	14.91%	10.18%	14.28%	6.54%	4.17%	N.A.

†Benchmark: Bloomberg Barclays U.S. Aggregate Bond Index

Composite Dispersion: N.A. - Information is not statistically meaningful due to an insufficient number of portfolios in the composite for the entire year.

*Prior to June 2011, the Multi-Sector Fixed Income Team was part of Goodwin Capital Advisers, a Phoenix Company. Since management of the mutual funds prior to this date was under a sub-advisory agreement with Goodwin and the predecessor firm, the requirements for performance portability for inclusion in the composite have been met.

The Multi-Sector Opportunistic Composite contains all fully discretionary, fee paying multi-sector opportunistic accounts. Emphasis is on investments in fixed income across all 14 sectors of the fixed income market with the following restrictions: maximum below investment grade securities 65%, average credit quality is at least BB and non-US exposure 0-50%. Emphasis is active sector rotation and disciplined risk management to portfolio construction avoiding interest rate bets.

For comparison purposes, the composite is measured against the Bloomberg Barclays U.S. Aggregate Bond Index. The index is composed of securities from the Government/Corporate Bond Index, Mortgage-Backed Securities Index and Asset-Backed Securities Index, calculated on a total return basis, which includes price appreciation/depreciation and income as a percentage of the original investment. The index is unmanaged, its returns do not reflect any fees, expenses, or sales charges, and is not available for direct investment.

Newfleet Asset Management, LLC is a registered investment adviser and an indirect wholly owned subsidiary of Virtus Investment Partners. The minimum account size for this composite is \$15 million. The Multi-Sector Opportunistic composite was created on April 1, 2012. Results are based on fully discretionary accounts under management, including those accounts no longer with the firm. Past performance is not indicative of future results. The U.S. Dollar is the currency used to express performance. The annual composite dispersion is an asset-weighted standard deviation calculated for the accounts in the composite the entire year. Policies for valuing portfolios, calculating performance, and preparing compliant presentations are available upon request. Effective 1/1/13, accounts with leverage are no longer included in the composite.

Returns are presented gross and net of management fees and include the reinvestment of all income. Effective 3/1/2018, net of fee performance was calculated using 1/12 of the highest fee of 0.65%, applied monthly. Prior to 3/1/2018, net of fee performance was calculated using 1/12 of the highest fee of 0.55%, applied monthly. Actual investment advisory fees incurred by clients may vary. The management fee schedule is as follows: First \$100 million – 0.40%, over \$100 million – 0.35%. Newfleet Asset Management, LLC claims compliance with the Global Investment Performance Standards (GIPS®) and has prepared and presented this report in compliance with the GIPS standards. Newfleet Asset Management, LLC has been independently verified for the period January 1, 1990 through December 31, 2019.

Verification assesses whether (1) the firm has complied with all the composite construction requirements of the GIPS standards on a firm-wide basis and (2) the firm's policies and procedures are designed to calculate and present performance in compliance with the GIPS standards. The Multi-Sector Opportunistic composite has been examined for the periods June 2, 2011 through December 31, 2019. The verification and performance examination reports are available upon request. The firm maintains a complete list and description of composites, which is available upon request.

For more information on the Newfleet Fixed Income strategies, please contact:

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