

# 4Q 2023 Core Plus Strategy

## Strategy Description

- ▶ Broad multi-sector fixed income strategy that seeks to maximize total return and outperform the Bloomberg U.S. Aggregate Bond Index.
- ▶ Dynamic investment approach that tactically allocates across the broad fixed income universe seeking to optimize relative value.
- ▶ Investment process incorporates top-down macro analysis, active sector rotation, and fundamental credit selection. The primary driver of performance is sector rotation, followed by security selection.
- ▶ Investment guidelines provide flexibility to optimize sector exposure relative to market conditions and add value relative to the benchmark. Intermediate-duration mandate (range between 3-6 years); maximum non-investment grade exposure of 20%; maximum non-U.S. exposure of 35%.

## About Newfleet Asset Management

Newfleet Asset Management is a fixed income specialist with a legacy of dynamic, multi-sector investing since 1992. We offer a range of mandates that vary in duration, credit quality, and return/risk profile.

## Strategy Facts

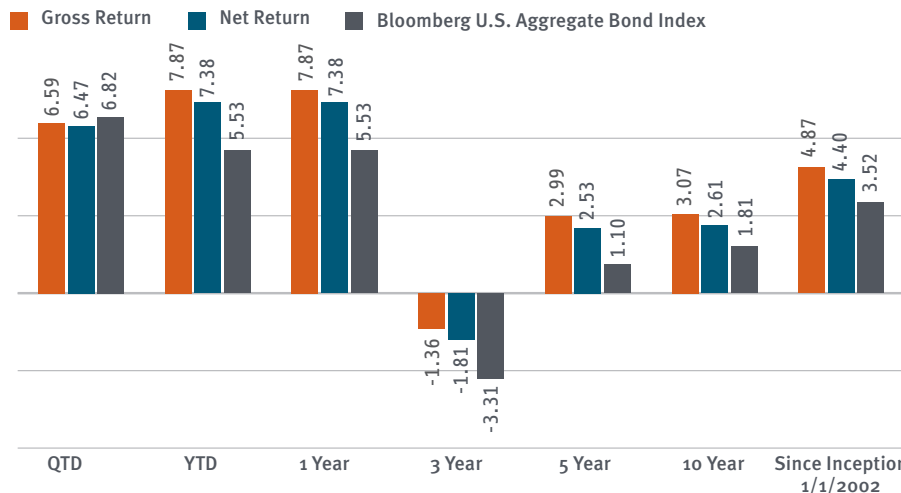
AUM: \$436 million  
Inception: 1/1/2002  
Index: Bloomberg U.S. Aggregate Bond Index

## Portfolio Management

**David L. Albrycht, CFA**  
President and  
Chief Investment Officer

**Stephen H. Hooker, CFA**  
Managing Director and  
Portfolio Manager

## Performance (%)



Periods ended 12/31/2023. Time periods over one year are annualized. **Past performance is not indicative of future results.** Net return is shown net of maximum management fees.

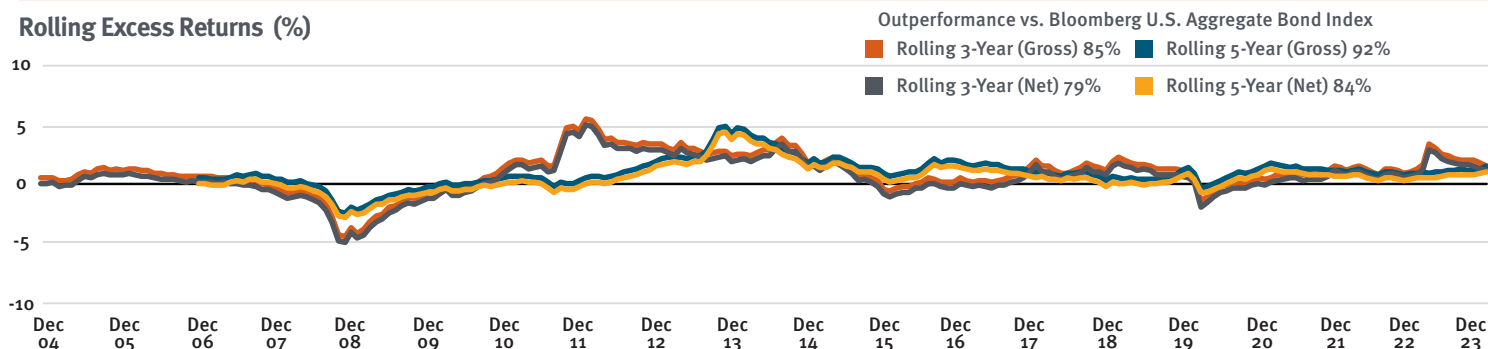
## Portfolio Characteristics\*

	Portfolio	Index
Option Adjusted Spread	147.21	41.60
Yield-to-Worst	5.69	4.53
Yield-to-Maturity	5.72	4.53
Effective Duration	5.82	6.24
Weighted Average Life	8.94	8.40
Average Credit Quality	A1	AA2
Number of Holdings	573	13,334
Average Price	96.32	92.68

## Risk Metrics

	Portfolio	Index
Volatility (10-years)	5.04	4.76
Sharpe Ratio (10-years)	0.37	0.12

## Rolling Excess Returns (%)



**Past performance is not indicative of future results.**

\* Portfolio characteristics and allocations are based on a representative portfolio. All performance statistics, including risk metrics, are based on the strategy's composite.

**Calendar Year Returns**

	2023	2022	2021	2020	2019	2018	2017	2016	2015	2014
Gross	7.87	-11.70	0.75	8.11	11.70	-0.81	6.21	5.64	0.58	4.29
Net	7.38	-12.10	0.30	7.63	11.20	-1.26	5.74	5.17	0.13	3.82
Index	5.53	-13.01	-1.54	7.51	8.72	0.01	3.54	2.65	0.55	5.97

Past performance is not indicative of future results.

Index: Bloomberg U.S. Aggregate Bond Index.

**Duration Distribution\***

	Portfolio	Index
Under 3 Years	37.88	25.64
3-5 Years	16.60	21.77
5-7 Years	17.08	19.40
7-10 Years	10.99	16.88
Over 10 Years	17.46	16.31

**Sector Distribution\***

	Portfolio	Index
Corporate - Investment Grade	25.85	24.91
Treasury	18.90	41.64
Non-Agency Residential MBS	17.53	0.00
Asset Backed Securities	11.68	0.43
Bank Loans	5.68	0.00
Mortgage Backed Securities	5.01	26.59
Corporate - High Yield	4.71	0.01
Non-Agency Commercial MBS	4.37	1.63
Cash	2.92	0.00
Municipals	1.19	0.01
Yankee - High Quality	0.91	3.23
Emerging Market - High Yield	0.69	0.00
Taxable Municipals	0.54	0.56
Agency Debentures	0.00	0.96
Other	0.00	0.04

**Ratings Distribution\***

	Portfolio	Index
Aaa	20.84	3.51
Aa	30.00	72.30
A	11.17	11.64
Baa	23.53	12.55
Ba	4.73	0.00
B	6.03	0.00
CCC and Below	0.19	0.00
Not Rated	0.59	0.01
Cash & Equivalents	2.92	0.00

**Maturity Distribution\***

	Portfolio	Index
Under 3 Years	25.35	22.56
3-5 Years	22.46	19.36
5-7 Years	11.56	13.98
7-10 Years	21.37	25.83
Over 10 Years	19.26	18.27

Sector and ratings distributions are subject to change.

\* Results presented are that of a representative portfolio. Please see the GIPS Report on page 4 for additional information.

**Index:** The Bloomberg 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.

The ratings issued by Nationally Recognized Statistical Rating Organizations assess the credit worthiness of a corporation's or government's debt issues. The ratings apply to the fund's holdings and not the fund itself. Ratings are provided by Standard & Poor's, Moody's, and Fitch. For certain securities that are not rated by any of these three agencies, credit ratings from other agencies may be used. Where the rating agencies rate a security differently, Newfleet uses the higher rating. If a rating is not available, the bond is placed in the Not Rated category. Credit ratings are subject to change. Aaa, Aa, A, and Baa are investment grade ratings; Ba, B, Caa, Ca, C, and D are below-investment grade ratings.

**Risk Considerations**

**Credit & Interest:** Debt instruments are subject to various risks, including credit and interest rate risk. The issuer of a debt security may fail to make interest and/or principal payments. Values of debt instruments 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 in foreign securities, especially in emerging markets, subjects the portfolio to additional risks such as increased volatility, currency fluctuations, less liquidity, and political, regulatory, economic, and market risk. **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 non-repayment of underlying collateral, including losses to the portfolio. **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. **Market Volatility:** The value of the securities in the portfolio may go up or down in response to the prospects of individual companies and/or general economic conditions. Local, regional, or global events such as war or military conflict, terrorism, pandemic, or recession could impact the portfolio, including hampering the ability of the portfolio's manager(s) to invest its assets as intended.

## MARKET REVIEW & OUTLOOK

- ▶ 4Q saw a historic rally fueled by expectations that the Federal Reserve (Fed) is likely done raising interest rates and may pull off a soft landing.
- ▶ Longer-duration and risk assets outperformed as a result, with all spread sectors posting positive total returns for the quarter.
- ▶ While still above targets, cooling inflation appears to be headed toward levels that are consistent with central bank goals.
- ▶ Differing expectations on the timing and magnitude of rate cuts in 2024 will likely create interesting investment opportunities for investors in the coming quarters.
- ▶ That said, the impact of monetary policy often acts on the economy with variable lags and unpredictability.
- ▶ The U.S. Treasury curve shifted lower in 4Q: the 2-year Treasury yield decreased 80 bps, the 5-year Treasury yield decreased by 76 bps, the 10-year Treasury yield decreased by 69 bps, and the 30-year Treasury yield moved 67 bps lower.

### Key Risks/Considerations

- ▶ Higher inflation readings and interest rates may still pose a key risk to credit markets, as will slower-than-expected growth.
- ▶ Further escalation of the Israel/Palestine conflict, the Russia/Ukraine war, or both could disrupt the improving global inflation picture.
- ▶ 2024 will see the largest proportion of the world population in history head to the polls, with high-stakes elections in over 50 countries.
- ▶ The U.S. presidential election is one of them—if disruptive, it may introduce volatility.

For more detail on the macroeconomic backdrop and specific sectors, see [Newfleet's 4Q23 Market Review & Outlook on Newfleet.com](#).

## STRATEGY PERFORMANCE

The Core Plus Strategy (gross of fees) returned 6.59% in the fourth quarter versus the Bloomberg U.S. Aggregate Bond Index return of 6.82%. For the last twelve months, the Strategy has materially outperformed, returning 7.87% vs. 5.53% for the Index. The following is a summary of the contributors and detractors of the representative account of the Strategy:

### Current Quarter Contributors

- ▶ An underweight to U.S. Treasuries had a positive impact during the period as most spread sectors outperformed during the quarter.
- ▶ Allocation to corporate high yield had a positive effect on performance during the period as risk assets rallied.
- ▶ Allocation to and positioning within emerging markets (EM) high yield had a positive impact on performance. Within EM, high yield outperformed investment grade during the period.

### Current Quarter Detractors

- ▶ The Strategy's shorter duration relative to the benchmark had a negative impact on performance during the period with the outperformance on the longer end of longer duration assets.
- ▶ Allocation and issue selection in asset-backed securities (ABS) had a negative impact on performance in the fourth quarter. Though credit spreads tightened across securitized products during the period, this did not keep pace with investment grade corporate debt.

- ▶ Allocation to RMBS over agency mortgages (MBS) and positioning within the RMBS sector had a negative impact on performance during the quarter as RMBS underperformed given the tremendous rate rally and the longer duration nature of MBS.
- ▶ While the allocation to corporate high yield had a positive impact on performance, corporate high yield issue selection was negative.

## CURRENT POSITIONING AND STRATEGY

As the markets digest economic and geopolitical events, we continue to believe active sector and issuer selection is critical to take advantage of market volatility as it arises. Sectors we are currently most focused on include:

- ▶ Corporate Investment Grade—Reduced exposure. Valuations are the bottleneck in an otherwise positive outlook as investment grade corporate bonds saw one of the strongest quarters on record in 4Q with 8.5% total returns. We see buying opportunities in banking and utilities, both of which have lagged. An overweight to BBB-rated bonds remains prudent, especially considering the pace of ratings improvements within that category.
- ▶ Residential Mortgage Credit—Increased exposure. RMBS—Despite its underperformance this quarter, we still maintain an overweight to the sector as credit performance remains stable and credit spreads are still wide of averages. With higher mortgage rates and a subsequent fall in housing activity, we see solid fundamental and technical backdrops.
- ▶ ABS—Though ABS underperformed investment grade corporate bonds in 4Q, from a technical perspective supply was strong and steady throughout the quarter, ending the year by slightly eclipsing 2022 issuance levels amid strong investor demand. We maintain our overweight in ABS as fundamentals and technical factors are both tailwinds for performance.
- ▶ Bank Loans—Bank loans returned 2.8% for the fourth quarter, underperforming high yield and equities as market expectations for a more accommodative monetary policy in 2024 gained momentum. Though our risk positioning is higher going into 2024, we remain under-risked relative to the market considering the many events—economic slowdown, higher inflation, geopolitics, and other black swan events—that may bring back a risk-off environment.

Year End	Composite Assets			Annual Performance Results					
	Total Firm Assets (billions)	U.S. Dollars (millions)	Number of Accounts	Composite			Benchmark <sup>†</sup>		Composite Dispersion
				Gross	3 Yr Ann Std Dev	Net	Return	3 Yr Ann Std Dev	
2022	7.9	310	Five or fewer	-11.70%	6.82%	-12.10%	-13.01%	5.85%	N.A.
2021	10.1	407	Five or fewer	0.75%	5.39%	0.30%	-1.54%	3.35%	N.A.
2020	10.2	450	Five or fewer	8.11%	5.39%	7.63%	7.51%	3.36%	N.A.
2019	10.6	355	Five or fewer	11.70%	2.59%	11.20%	8.72%	2.87%	N.A.
2018	10.4	395	Five or fewer	-0.81%	2.67%	-1.26%	0.01%	2.84%	N.A.
2017	12.0	438	Five or fewer	6.21%	2.73%	5.74%	3.54%	2.78%	N.A.
2016	11.7	473	Five or fewer	5.64%	3.08%	5.17%	2.65%	2.98%	N.A.
2015	11.4	324	Five or fewer	0.58%	3.31%	0.13%	0.55%	2.88%	N.A.
2014	12.6	359	Five or fewer	4.29%	3.44%	3.82%	5.97%	2.63%	N.A.
2013	12.3	372	Five or fewer	1.25%	3.52%	0.80%	-2.02%	2.71%	N.A.

<sup>†</sup>Benchmark: Bloomberg 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.

Effective June 1, 2023, the composite name changed from the Multi-Sector Core Plus Composite to the Core Plus Composite. The Core Plus Composite contains all fully discretionary, fee paying multi-sector core plus 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 20% (prior to 10/1/23, the max was 35%), average credit quality is at least BBB and non-US exposure 0-35%.

For comparison purposes, the composite is measured against the Bloomberg 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.

Effective July 1, 2022, Newfleet Asset Management became a division of Virtus Fixed Income Advisers, LLC ("VFIA"), an SEC registered investment adviser. Prior to July 1, 2022, Newfleet Asset Management, LLC was a registered investment adviser and an indirect wholly owned subsidiary of Virtus Investment Partners. Effective January 1, 2003, the minimum account size for this composite is \$15 million. The Core Plus 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 investments, calculating performance, and preparing GIPS Reports are available upon request.

Returns are presented gross and net of management fees and include the reinvestment of all income. Net returns are calculated by reducing the gross returns by the maximum fee charged to any account in the composite for the respective period. The maximum fee for the respective period could be different than the current fee schedule. Net of fee performance was calculated using 1/12 of the highest fee of 0.45%, applied monthly. Actual investment advisory fees incurred by clients may vary. The management fee schedule is as follows: \$25 to \$50 million - 0.25%, \$50 to \$100 million - 0.225%, over \$100 million - 0.1875%. The composite inception date is January 1, 2002. Gross returns are used to calculate the composite three-year annualized ex-post standard deviation and the annual composite dispersion. GIPS® is a registered trademark of CFA Institute. CFA Institute does not endorse or promote this organization, nor does it warrant the accuracy or quality of the content contained herein.

Newfleet Asset Management 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 has been independently verified for the periods January 1, 1990 through December 31, 2022. A firm that claims compliance with the GIPS standards must establish policies and procedures for complying with all the applicable requirements of the GIPS standards. Verification provides assurance on whether the firm's policies and procedures related to composite and pooled fund maintenance, as well as the calculation, presentation, and distribution of performance, have been designed in compliance with the GIPS standards and have been implemented on a firm-wide basis. The Core Plus Composite has had a performance examination for the periods June 2, 2011 through December 31, 2022. 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.

The commentary is the opinion of the manager. This material has been prepared using sources of information generally believed to be reliable; however, its accuracy is not guaranteed. Opinions represented are subject to change and should not be considered investment advice or an offer of securities.

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

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