Q2 2020 COMMENTARY AND FACTSHEET

Multi-Sector Low Duration Strategy

Newfleet ASSET MANAGEMENT
A Virtus Investment Partner

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 (CMBS), 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 5.14% (gross of fees) in the second quarter versus the ICE BofA 1-5 Year U.S. Corporate & Government Bond Index return of 1.84%.

Positive Contributors

> Underweight U.S. Treasury and agency mortgage-backed securities and overweight spread sectors.

> Allocation to, and issue selection within, non-agency RMBS and ABS. 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 and bank loan sectors. 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.

> Issue selection within investment grade corporate bonds. In the 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

> Issue selection and positioning within high yield bank loans and corporate high yield. While allocations to the sectors were beneficial, issue selection within both sectors was a detractor relative to the respective index performance.

CURRENT STRATEGY POSITIONING

Sector Changes: We reduced exposure to cash, non-agency RMBS, ABS, and CMBS. We increased exposure primarily to corporate high yield and U.S. Treasuries.

Non-U.S. Exposure: Overall non-U.S. and EM debt exposure is slightly lower than last quarter. Total non-U.S. and EM exposure remains low and well below historical averages 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 in both aggregate exposure and riskiness of those exposures 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

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The commentary is the opinion of the subadviser. 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.

Effective October 31, 2019, the Strategy changed its name from Multi-Sector Low Duration Core Strategy.

CURRENT STRATEGY, continued from page 1

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.

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

Stephen H. Hooker, CFA
Industry start date: 1993

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 earn a high level of total return, including a competitive level of current income, with an emphasis on maintaining low volatility and overall short duration;it invests primarily in investment grade, more liquid securities across fourteen bond market sectors.

Multi-Sector Low Duration has a maximum allocation to non-investment grade securities of 20% and maximum non-U.S. exposure of 35%. The average duration historically has ranged from one to three years.

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.

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

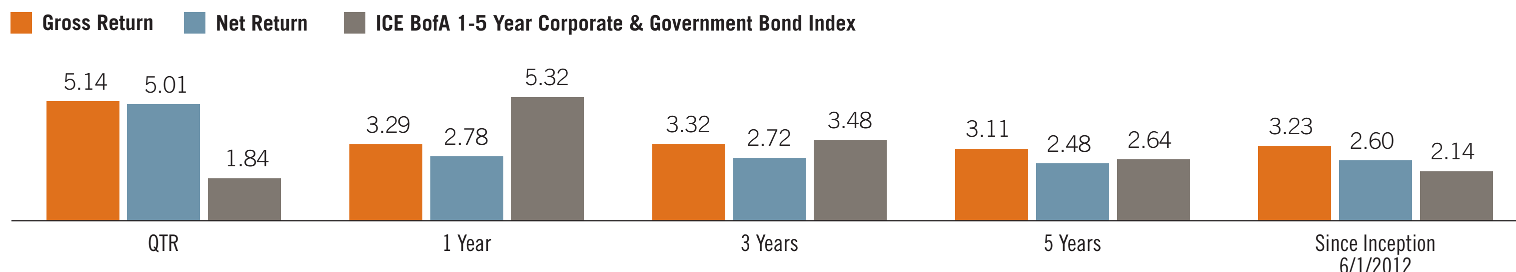
STEP 2 Issue Selection

- 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%

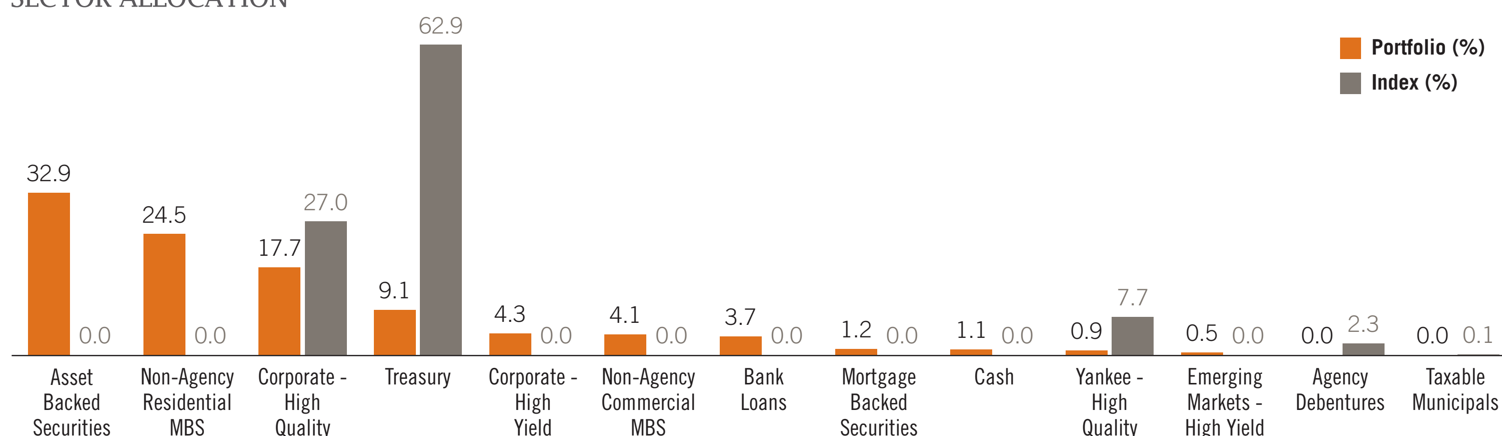
PERFORMANCE (%)



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 ICE BofA 1-5 Year Corporate & Government Bond Index which tracks the performance of US dollar denominated investment grade debt publicly issued in the U.S. domestic market, including U.S. Treasury, U.S. agency, foreign government, supranational and corporate securities, with a remaining term to final maturity less than 5 years, calculated on a total return basis. The index is unmanaged, its returns do not reflect any fees, expenses, or sales charges, and is not available for direct investment. Prior to 2/1/2017, the benchmark was the Barclays U.S. Intermediate Government/Credit Bond Index.

SECTOR ALLOCATION



RISK STATISTICS

	1 Year		3 Years		5 Years		Since Inception 6/1/2012	
	Portfolio	Index	Portfolio	Index	Portfolio	Index	Portfolio	Index
Sharpe Ratio	0.31	2.36	0.46	1.13	0.70	0.99	1.04	1.01
Alpha (%)	-5.60	0.00	-0.26	0.00	0.57	0.00	1.10	0.00
Beta	2.06	1.00	1.09	1.00	0.94	1.00	0.99	1.00
R-Squared (%)	31.52	100.00	20.84	100.00	22.23	100.00	29.02	100.00
Standard Deviation (%)	5.72	1.52	3.41	1.49	2.72	1.45	2.36	1.36
Tracking Error	5.21	0.00	3.13	0.00	2.48	0.00	2.05	0.00
Information Ratio	-0.39	NA	-0.05	NA	0.19	NA	0.53	NA

RATINGS DISTRIBUTION[1] (%)

	Portfolio	Index
Aaa	37.96	69.00
Aa	9.03	4.78
A	21.67	12.86
Baa	19.68	13.36
Ba	4.95	0.00
B	0.58	0.00
Caa	0.02	0.00
Ca	0.00	0.00
C	0.00	0.00
D	0.00	0.00
Not Rated	5.04	0.00
Cash	1.06	0.00

MATURITY (%)

	Portfolio	Index
Under 3 Years	63.40	58.01
3-5 Years	25.60	41.99
5-10 Years	9.40	0.00
Over 10 Years	1.60	0.00

DURATION (%)

	Portfolio	Index
Under 3 Years	78.20	62.31
3-5 Years	18.96	37.69
5-10 Years	2.84	0.00
Over 10 Years	0.00	0.00

PORTFOLIO CHARACTERISTICS

	Portfolio	Index
Duration	2.01 yrs	2.69 yrs
Yield to Worst	2.51%	0.54%

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: ICE BofA 1-5 Year Corporate & Government Bond Index

[1]The 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. **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. **Foreign & Emerging Markets:** Investing internationally, especially in emerging markets, involves additional risks such as currency, political, accounting, economic, and market risk. **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 LOW DURATION COMPOSITE GIPS COMPOSITE REPORT

		Composite Assets		Annual Performance Results					
				Composite			Benchmark†		
Year End	Total Firm Assets (billions)	U.S. Dollars (millions)	Number of Accounts	Gross	3 Yr Ann Std Dev	Net	Return	3 Yr Ann Std Dev	Composite Dispersion
2019	10.6	556	Five or fewer	6.02%	0.94%	5.47%	5.08%	1.33%	N.A.
2018	10.4	503	Five or fewer	1.28%	0.91%	0.63%	1.40%	1.32%	N.A.
2017	12.0	571	Five or fewer	3.11%	0.97%	2.44%	1.28%	1.28%	N.A.
2016	11.7	627	Five or fewer	3.49%	1.16%	2.82%	1.62%	1.35%	N.A.
2015	11.4	517	Five or fewer	1.88%	1.50%	1.23%	1.05%	1.21%	N.A.
2014	12.6	410	Five or fewer	2.84%	na	2.18%	1.51%	na	N.A.
2013	12.3	216	Five or fewer	1.82%	na	1.20%	0.32%	na	N.A.
2012‡	10.8	78	Five or fewer	4.28%	na	3.94%	1.31%	na	N.A.

†Benchmark: ICE BofA 1-5 Year Corporate & Government Bond Index
‡Represents the return for the period 5/31/2012 to 12/31/2012.

Composite/Benchmark Standard Deviation: na - The three-year annualized ex-post standard deviation of the composite and/or benchmark is not presented because 36 monthly returns are not available.

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

Effective October 31, 2019 the name of the composite changed from the Multi-Sector Low Duration Core Composite to the Multi-Sector Low Duration Composite. It contains all fully discretionary, fee paying low duration core accounts. The strategy focuses on primarily higher quality, more liquid securities across 14 fixed income sectors by applying a time-tested approach of active sector rotation, extensive credit research and disciplined risk management to capitalize on opportunities across undervalued areas of the fixed income markets. The goal is to invest at least 80% of assets in fixed income debt obligations of various types of issuers. The average duration will range from one to three years. The strategy seeks to earn a high level of total return, including a competitive level of current income, while limiting fluctuations in net asset value due to changes in interest rates.

For comparison purposes, the composite is measured against the ICE BofA 1-5 Year US Corporate & Government Bond Index. Prior to 1/15/2020 the index name was ICE BofA Merrill Lynch 1-5 Year US Corporate & Government Bond Index. The index tracks the performance of US dollar denominated investment grade debt publicly issued in the US domestic market, including US Treasury, US agency, foreign government, supranational and corporate securities, with a remaining term to final maturity less than 5 years, calculated on a total return basis. The index is unmanaged, its returns do not reflect any fees, expenses, or sales charges, and is not available for direct investment. Effective 2/1/2017, the benchmark was changed retroactively to the ICE BofA Merrill Lynch 1-5 Year US Corporate & Government Bond Index to better reflect the investment strategy. Prior to 2/1/2017, the benchmark was the Bloomberg Barclays U.S. Intermediate Government/Credit Bond Index.

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 Low Duration composite was created on August 1, 2013. 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.

Returns are presented gross and net of management fees and include the reinvestment of all income. Effective 3/1/2019, net of fee performance was calculated using 1/12 of the highest fee of 0.50%. For the period 6/1/2013 to 2/28/2019 net of fee performance was calculated using 1/12 of the highest fee of 0.65% (prior to 6/1/2013 the highest fee was 0.55%), applied monthly. Actual investment advisory fees incurred by clients may vary. The management fee schedule is as follows: First $100 million – 0.30%, over $100 million – 0.25%. 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 Low Duration composite has been examined for the periods June 1, 2012 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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