4Q 2023
Multi-Sector Low Duration Strategy

Newfleet ASSET MANAGEMENT
A Virtus Investment Partner

Strategy Description

- Flexible short duration multi-sector strategy that seeks to maximize total return and generate incremental yield, while managing volatility and downside risk.
- Dynamic investment approach that tactically allocates across a broad range of fixed income sectors 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.
- Comprehensive credit strategy that provides incremental yield relative to other short-term bond mandates with low volatility and interest rate sensitivity.
- Investment guidelines provide flexibility to add value relative to the benchmark. Short duration mandate (range between 1-3 years); maximum non-investment grade exposure of 20%; and non-U.S. exposure of 20%.

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: $398 million

Inception: 6/1/2012

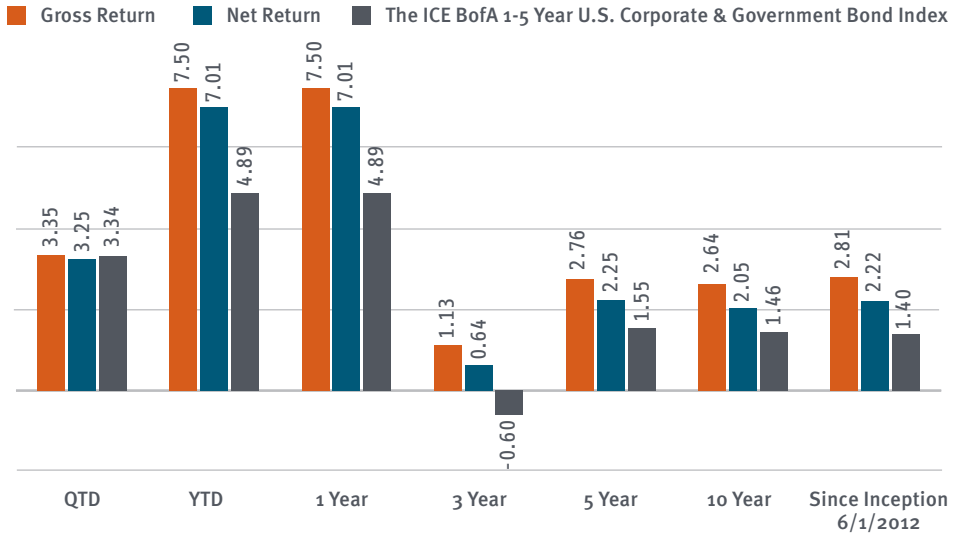
Index: The ICE BofA 1-5 Year U.S. Corporate & Government Bond Index

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	161.85	25.51
Yield-to-Worst	6.06	4.44
Yield-to-Maturity	6.09	4.44
Effective Duration	2.00	2.56
Weighted Average Life	2.77	2.76
Average Credit Quality	A1	AA2
Number of Holdings	469	4,872
Average Price	96.93	96.21

Risk Metrics

	Portfolio	Index
Volatility (10-years)	2.50	2.06
Sharpe Ratio (10-years)	0.56	0.11

Calendar Year Returns

	2023	2022	2021	2020	2019	2018	2017	2016	2015	2014
Gross	7.50	-4.44	0.67	4.51	6.02	1.28	3.11	3.49	1.88	2.84
Net	7.01	-4.92	0.17	4.00	5.47	0.63	2.44	2.82	1.23	2.18
Index	4.89	-5.54	-0.87	4.65	5.08	1.40	1.28	1.62	1.05	1.51

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.

Sector Distribution*

	Portfolio	Index
Asset Backed Securities	35.08	0.00
Corporate - Investment Grade	19.83	27.79
Non-Agency Residential MBS	17.94	0.00
Treasury	6.33	63.77
Non-Agency Commercial MBS	5.98	0.00
Bank Loans	5.92	0.00
Mortgage Backed Securities	3.82	0.00
Corporate - High Yield	3.53	0.05
Cash	0.93	0.00
Emerging Market - High Yield	0.63	0.03
Yankee - High Quality	0.00	6.70
Agency Debentures	0.00	1.59
Taxable Municipals	0.00	0.08
Equity	0.00	0.00

Ratings Distribution*

	Portfolio	Index
Aaa	29.98	3.80
Aa	22.75	69.46
A	15.26	13.29
Baa	21.46	13.37
Ba	5.80	0.06
B	2.69	0.00
CCC and Below	0.15	0.00
Not Rated	0.98	0.02
Cash & Equivalents	0.93	0.00

Maturity Distribution*

	Portfolio	Index
Under 3 Years	61.36	59.72
3-5 Years	29.33	40.26
5-7 Years	7.37	0.00
7-10 Years	1.44	0.00
Over 10 Years	0.50	0.02

Duration Distribution*

	Portfolio	Index
Under 3 Years	76.35	64.49
3-5 Years	19.31	35.51
5-7 Years	4.12	0.00
7-10 Years	0.23	0.00

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 ICE BofA 1-5 Year U.S. Corporate & Government Bond Index tracks the performance of U.S. 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.

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. **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. **Foreign Investing:** Investing in foreign securities subjects the fund to additional risks such as increased volatility; currency fluctuations; less liquidity; less publicly available information about the foreign investment; and political, regulatory, economic, and market risk. **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 OVERVIEW & 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 Multi-Sector Low Duration Core Strategy (gross of fees) returned 3.35 % in the fourth quarter, outperforming the ICE BofA 1-5 Year Corporate & Government Bond Index return of 3.34%. For the last twelve months, the Strategy has materially outperformed, returning 7.50% versus 4.89% 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 bank loans had a positive impact on performance. Loans rallied early in the quarter on the back of a change in market sentiment to a higher-for-longer view on rates; that said, it later underperformed most interest rate-sensitive sectors on a total return basis as rates rallied.

Current Quarter Detractors

- 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 the corporate high yield sector had a positive impact on performance, issue selection was negative.

CURRENT POSITIONING & 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:

- ABS—Increased exposure. 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 demand from investors. We maintain our overweight in ABS as fundamentals and technical factors are both tailwinds for performance.
- Residential Mortgage Credit—Reduced exposure over the quarter. Despite its underperformance during the period, 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.
- Corporate Investment Grade—Increased exposure. Investment grade corporate bonds had one of the strongest quarters on record in 4Q with 8.5% total returns. Valuations are the bottleneck in an otherwise positive outlook; the market is priced for a very favorable macroeconomic outcome. 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.
- Bank Loans—Reduced exposure. 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.

Past performance is not indicative of future results.

		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
2022	7.9	489	Five or fewer	-4.44%	3.93%	-4.92%	-5.54%	2.51%	N.A.
2021	10.1	903	Five or fewer	0.67%	3.45%	0.17%	-0.87%	1.42%	N.A.
2020	10.2	608	Five or fewer	4.51%	3.43%	4.00%	4.65%	1.43%	N.A.
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%	N.A.	2.18%	1.51%	N.A.	N.A.
2013	12.3	216	Five or fewer	1.82%	N.A.	1.20%	0.32%	N.A.	N.A.

† Benchmark: ICE BofA 1-5 Year U.S. Corporate & Government Bond Index

Composite/Benchmark Standard Deviation: N.A. - 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.

The Multi-Sector Low Duration Composite contains all fully discretionary, fee paying low duration accounts. Effective 10/31/19, the word Core was removed from the composite name. 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 Yr US Corp & Govt Bond Index. Effective 1/15/20, the name Merrill Lynch was removed from the 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 2/1/17, the benchmark was changed retroactively to the ICE BofA 1-5 Yr US Corp & Govt Bond Index to better reflect the investment strategy. Prior to 2/1/17, the benchmark was the Bloomberg US Intermediate Govt/Credit Bond Index.

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. 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 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. Effective 8/1/23, net of fee performance was calculated using 1/12 of the highest fee of 0.40%, applied monthly. For the period 3/1/19 to 7/31/23, the highest fee was 0.50%. For the period 6/1/13 to 2/28/19 the highest fee was 0.65%. Prior to 6/1/13, the highest fee was 0.55%. Actual investment advisory fees incurred by clients may vary. The management fee schedule is as follows: $25 to $50 million – 0.20%, $50 to $100 million - 0.1875%, over $100 million – 0.15%. The composite inception date is June 1, 2012. 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 has been independently verified for the periods 1/1/90 through 12/31/22. 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 composite has had a performance examination for the periods 6/1/12 through 12/31/22. 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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