Multi-Sector Low Duration Strategy

Newfleet ASSET MANAGEMENT
A Virtus Investment Partner

MARKET OVERVIEW

The first quarter brought bursts of optimism as the world continued its uneven recovery from the COVID-19 pandemic and the economic lockdowns that dominated 2020. Tremendous progress in the development of a vaccine and a thus far effective delivery system of administering doses to a meaningful proportion of the population have put the U.S. on a path to normalcy. During the quarter, some of the uncertainties in domestic politics were resolved as the new administration accomplished the much anticipated next round of fiscal stimulus to keep the economic recovery on track. The $1.9T American Rescue Plan Act was signed into law on March 11 and delivered another round of direct payments to individuals, enhanced unemployment benefits, and aid to states. Further stimulus measures may take shape in the months ahead as political dialogue turns toward infrastructure.

Markets have shifted their focus to the implications for the future, which included some rotation in U.S. equity markets and a renewed debate on the global outlook for inflation. We believe that base effects related to last year's disruptions will lead to elevated inflation readings in the near term, but we expect those data points will be transitory and likely to fade into the second half of the year. Secular developments in technology and the effects of globalization continue to help keep prices contained, and cyclical components such as unemployment and broad resource slack will help cap inflationary pressures as well. This view is reinforced by a U.S. Federal Reserve that remains dovish and committed to keeping policy accommodation in place until it achieves its mandates on both inflation and employment. We believe that policymakers globally will remain supportive of continued economic recovery.

In our view, economic activity and corporate earnings will continue to rebound over the course of the year. Financial markets were mixed during the quarter. We believe sector and issuer selection in this environment is critical and favors active over passive management. Elevated cash levels and a high degree of personal savings will be a tailwind to growth.

Most spread sectors outperformed U.S. Treasuries during the quarter led by those with less interest rate sensitivity such as corporate high yield, bank loans, and securitized product. While there was no clear performance trend between rating tiers, there were notable exceptions within high yield, bank loans, and most securitized sectors, where lower quality generally outperformed. Shorter duration also outperformed.

HOW THE STRATEGY PERFORMED

The Strategy returned -0.06% (gross of fees) in the first quarter versus the ICE BofA 1-5 Year U.S. Corporate & Government Bond Index return of -0.52%.

Positive Contributors

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

> Allocation to, and issue selection within, the asset-backed security (ABS) sector. Demand for short duration assets persisted throughout the quarter as interest rates increased during the period. The U.S. consumer continues to perform extremely well. Technicals across securitized product remain extremely favorable with new issue deal flow being met with insatiable demand.

> Allocation to the high yield bank loan sector. The sector benefited from the steepening interest rate curve and additional stimulus. The technical picture remains supportive as a combination of collateralized loan obligation (CLO) issuance and positive retail fund flows provided sufficient demand for new issuance, net of repayments.

> Allocation to the corporate high yield sector. While all of the factors remain in place for a continued rally in high yield—vaccine availability, a supportive Fed, economic recovery, and stimulus—rising U.S. interest rates remain a hurdle. Fourth quarter earnings releases remain strong.

Detractors

> Issue selection and the higher quality positioning within both high yield bank loans and corporate high yield securities. While allocation to each sector was beneficial, issue selection in both was a detractor relative to performance versus the index as lower quality within each sector outperformed.

CURRENT STRATEGY POSITIONING

Sector Changes: We reduced exposure to U.S. Treasuries and corporate high quality securities. We increased exposure to high yield bank loans, ABS, and non-agency residential mortgage-backed securities (RMBS).

Non-U.S. Exposure: The overall non-U.S. exposure within the Strategy remained relatively unchanged. Total non-U.S. exposure remains well below historical averages. During the quarter, emerging markets (EM) debt returns were primarily U.S. Treasury rate driven. EM high yield, having a higher spread/carry, outperformed the investment grade component of the sector, which has more sensitivity to interest rates. We continue to favor sovereigns in larger capital structures and prefer hard currency over local market exposure.

Corporate High Quality: An 83 basis points (bps) move higher in the 10-year Treasury rate, combined with a duration of 8.5 years, meant a difficult start to the year for the asset class. There simply was not enough initial spread to offset the rate move. Spreads were essentially flat quarter-over-quarter at +97 bps, thus remaining 30 bps through longer-term averages. Rate volatility caused a reduction in mutual fund inflows (though still surprisingly positive) and likely spooked foreign buyers as well. Supply, meanwhile, was equivalent to last year's record pace as issuers continued to opportunistically tap the new issue markets. Fundamentals are the bright spot with strong fourth quarter earnings and a robust outlook (consensus earnings growth for 2021 is 25%). Valuations remain constrained and the asset class is highly sensitive to rates. We have steadily reduced exposure, though we still see attractive opportunities within the BBB segment of the market, often in the more COVID-19-sensitive industries.

Corporate High Yield: The corporate high yield market continued its post-vaccine rally into 2021. However, index returns peaked in mid-February and gave up half the gains in the second half of the quarter as rising risk-free rates cut into returns and offset carry income. Lower quality bonds continued to outperform, led by CCCs—a result of high spreads that ground tighter and limited interest rate risk. With the sustained rally in crude prices, energy was the largest outperformer during the quarter while other COVID-19-impacted sectors such as airlines, aerospace & defense, and leisure also outperformed. Fundamentals remain at very poor levels in terms of leverage but liquidity positions are strong given high levels of cash on balance sheets. The outlook is favorable given expected earnings growth. We continue to view high yield constructively given the yield, lower interest rate risk, and economic expansion, despite spreads appearing rich relative to history and yields near all-time lows. We have maintained a meaningful allocation to the sector and have added to wider-trading industries such as energy, airlines, and cruise lines.

Securitized Product: We have positioned our securitized book of business to reflect the two areas of the economy where the fundamentals are strong: the U.S. consumer and housing. We have a significant overweight to ABS and non-agency RMBS. The U.S. consumer has several tailwinds at their back: low borrowing rates, record savings rates, unemployment trending lower, and the benefit of a third stimulus payment. The U.S. consumer debt service is near the lowest point in history. With respect to housing, we continue to see the tailwinds of low mortgage rates and limited supply.

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CURRENT STRATEGY, continued from page 1

Housing also benefits from positive secular changes as the pandemic has increased demand. Both ABS and RMBS started out the year strong with spreads tightening during the first five weeks. Both sectors are invested in shorter-duration assets and have outperformed year to date versus longer-duration assets. For the remainder of 2021, we envision more of a coupon-clipping environment.

OUTLOOK

As always, we believe it is important to stay diversified, have granular positions, and emphasize liquid investments. COVID-19, 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. Even with the recovery since the end of March 2020, we remained focused on credits that would benefit the most from a continued economic recovery. We believe some of the best total return and yield opportunities in fixed income can be found in spread sectors. Some of the specific sectors where we are finding the best relative value opportunities are out-of-index/off-the-run ABS, non-agency RMBS, high yield bank loans, corporate high yield, and BBB rated corporate investment grade.

PORTFOLIO MANAGEMENT

David L. Albrycht, CFA
Industry start date: 1985

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.

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.

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

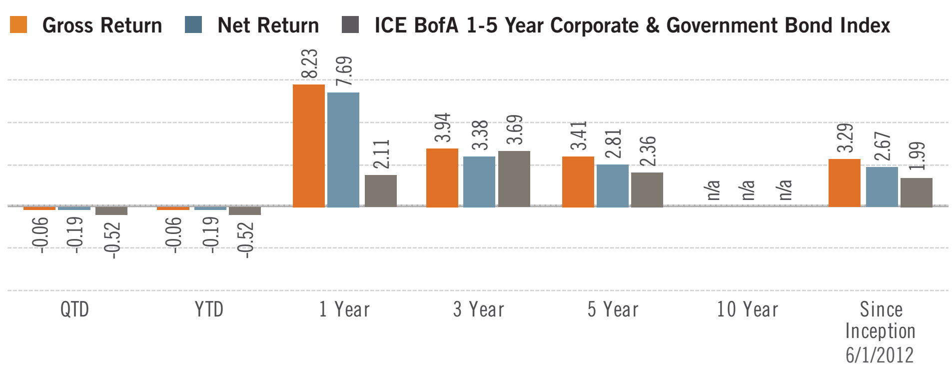
STEP 2 Issue Selection

- 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%

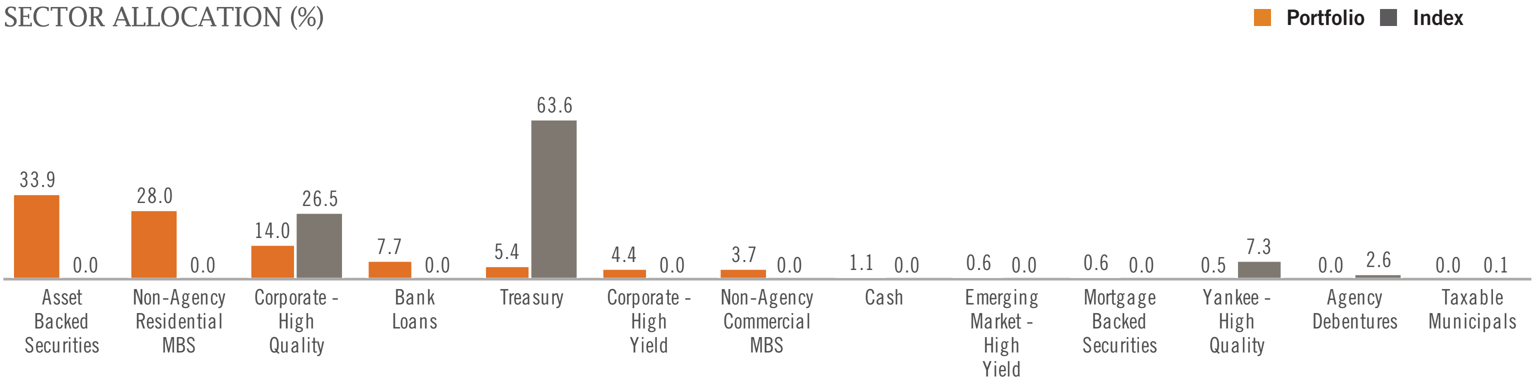
PERFORMANCE (%)



Periods ended 3/31/21. 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	3.32	1.77	0.71	1.52	0.81	0.82	1.12	0.96
Alpha (%)	3.82	0.00	-0.13	0.00	1.06	0.00	1.30	0.00
Beta	2.03	1.00	1.20	1.00	1.00	1.00	1.00	1.00
R-Squared (%)	92.63	100.00	21.05	100.00	22.64	100.00	29.49	100.00
Standard Deviation (%)	2.36	1.12	3.43	1.41	2.74	1.41	2.29	1.33
Tracking Error	1.32	0.00	3.17	0.00	2.49	0.00	1.98	0.00
Information Ratio	4.63	NA	0.08	NA	0.43	NA	0.66	NA

RATINGS DISTRIBUTION[1] (%)

	Portfolio	Index
Aaa	36.72	69.88
Aa	12.80	4.24
A	18.57	12.04
Baa	18.44	13.84
Ba	8.92	0.00
B	0.88	0.00
Caa	0.04	0.00
Ca	0.00	0.00
C	0.00	0.00
D	0.00	0.00
Not Rated	2.54	0.00
Cash & Equivalents	1.11	0.00

MATURITY (%)

	Portfolio	Index
Under 3 Years	59.42	58.03
3-5 Years	28.43	41.97
5-10 Years	11.26	0.00
Over 10 Years	0.90	0.00

DURATION (%)

	Portfolio	Index
Under 3 Years	74.24	61.43
3-5 Years	22.41	38.55
5-10 Years	3.35	0.02
Over 10 Years	0.00	0.00

PORTFOLIO CHARACTERISTICS

	Portfolio	Index
Duration	1.87 yrs	2.71 yrs
Yield to Worst	1.58%	0.57%

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'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 Fixed Income Securities:** There is a greater risk of issuer default, less liquidity, and increased price volatility related to high yield securities than investment grade securities. **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 are subject to credit and call risk, may 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
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%	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 3/31/2012.

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 10/31/19 the composite name 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 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 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. 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%. 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. The firm maintains a complete list and description of composites, which is available upon request.

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 periods January 1, 1990 through December 31, 2019. 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 Multi-Sector Low Duration Composite has had a performance examination for the periods June 1, 2012 through December 31, 2019. The verification and performance examination reports are available upon request.

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

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