Flexible Credit 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. The recovery across leveraged finance—high yield and bank loans—extended throughout 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 over the period given the reversal in risk sentiment. Loans also recovered a significant amount of the losses experienced in March, with riskier names outperforming in the second quarter.

For more detail on the macroeconomic backdrop and specific sectors, including high yield and bank loans, see Newfleet's 2Q20 Market Review & Outlook.

HOW THE STRATEGY PERFORMED

The Strategy returned 10.83% (gross of fees) in the second quarter versus 9.92% for the blended benchmark, 50% S&P/LSTA Leveraged Loan Index and 50% Bloomberg Barclays High Yield 2% Issuer Capped Bond Index.

Positive Contributors

> Security selection across both sectors was the primary driver of performance. Within the bank loan allocation, selection in consumer non-durables, automotive, and forest products contributed positively; within high yield, selection was favorable in consumer cyclicals and non-cyclicals.

> The Strategy benefited from the slight overweight to high yield relative to loans. The average market value weight of the high yield exposure was 49.7% and the benchmark return was 11.5%. The corresponding weight of the loan exposure was 45.7% and the return was 9.7%.

> Security selection within the modest allocation to investment grade corporates was additive.

Detractors

> The underweight to energy detracted from returns as that sector was a top-performing sector over the period.

> The modest cash allocation contributed negatively as markets rallied.

CURRENT STRATEGY POSITIONING

> The Strategy's current allocation of roughly 57% high yield/43% bank loans primarily reflects the current interest rate environment. The significant drop in LIBOR and expectations for continued low rates favor high yield, which has also benefited from strong mutual fund inflows as well as Fed support.

> That said, our focus is less on pinpointing an allocation mix between bank loans and high yield and more on identifying differential opportunities across and within each sector based on dislocations, whether in terms of industry, credit quality, technical conditions, or capital structure.

> We continue to monitor our COVID exposures for both direct and secondary impacts. Our focus is on companies with liquidity, runway, access to capital markets, and generally a good risk/reward balance of having some protection on the downside with good upside potential. We seek to invest in those companies we feel can survive in the current economic environment and exit business models that will be permanently damaged by the COVID-19 crisis.

OUTLOOK

The rationale for a single-product approach to non-investment grade credit remains compelling. The current environment amplifies the efficiency and transparency that a single product creates, in addition to the multiple and distinct dislocations in each of the asset classes that a single manager can uncover and take advantage of while scouring a broad opportunity set of non-investment grade securities.

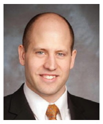
The containment of the virus and, ultimately, the development of a vaccine are the determining factors in the prospects for leveraged finance as well as other risk assets. The greatest short-term risk is second quarter earnings and the severity of the damage to earnings and outlooks. We expect an acceleration in the deterioration of fundamentals and for defaults to rise significantly over the next 12 to 24 months. The importance of credit selection once again has come to the forefront, especially given the second quarter's swift rally in prices that implies that much of the low-hanging fruit has been picked.

Our focus will remain on refining our views on the virus and how it will impact our portfolio holdings. Additional drivers for the second half of the year are the upcoming U.S. presidential election and the evolution of China-U.S. trade relations.

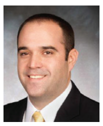
PORTFOLIO MANAGEMENT

David L. Albrycht, CFA
Industry start date: 1985

Francesco Ossino
Industry start date: 1996



Eric Hess, CFA
Industry start date: 2006



William Eastwood, CFA
Industry start date: 1996

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

The flexible credit team employs a relative value approach centered on fundamental analysis, loss avoidance, diversification, and active management. Newfleet's multi-sector approach to fixed income investing gives the team an advantage in sourcing and evaluating information and reinforces a rigorous and repeatable investment process.

The flexible credit strategy has the potential to generate competitive total return from both income and capital appreciation, as well as to provide a hedge against rising interest rates. The strategy offers investors the opportunity to outsource the complexity of allocating between two rapidly converging non-investment-grade credit sectors to a single manager with deep expertise in both asset classes and longstanding experience managing multi-sector portfolios. Combining both asset classes provides an expanded opportunity set.

The flexible credit strategy has the ability to invest in bank loans and high yield securities on an unconstrained basis (0% to 100% in either asset class). Interest rate risk is limited by keeping duration at three years or less. Additionally, the strategy has the ability to short or go long U.S. Treasury futures to adjust duration.

INVESTMENT PROCESS

STEP 1 Top Down Sector and Industry Analysis

- Relative value determines the allocation between bank loans and high yield bonds
- Industry bias and analysis such as competition, industry cycle, secular trends, and relative value determine industry positioning
- Formal monthly Newfleet multi-sector meetings strengthen decision-making

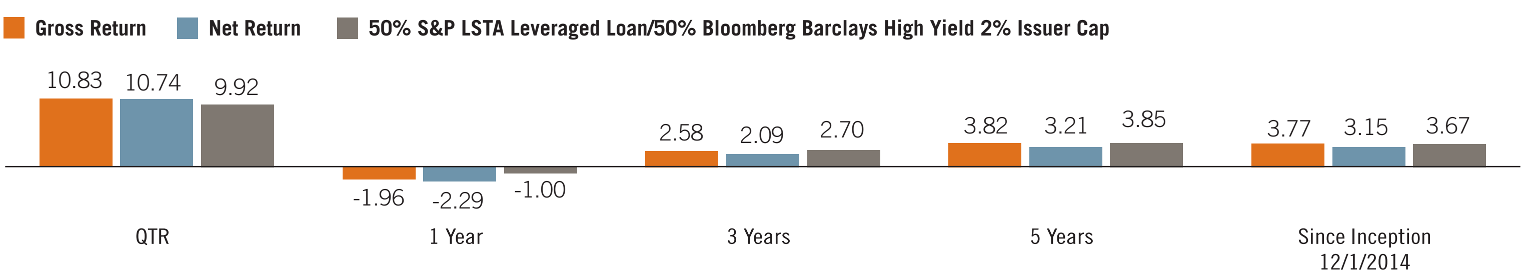
STEP 2 Bottom-Up Security Selection

- Perform in-depth fundamental credit analyses including business drivers, financial analysis, management experience, capital markets access, liquidity, and enterprise value
- Look for companies with a competitive advantage, sustainable capital structure, stable cash flow, and a bias to deleverage

STEP 3 Portfolio Construction, Opportunistic Trading, and Oversight

- Construct diversified portfolio across credit ratings, capital structure, issuers, and industries
- Dedicated traders actively take advantage of mispricings, market dislocations, and special situations
- Constant evaluation using technology, proprietary credit monitoring

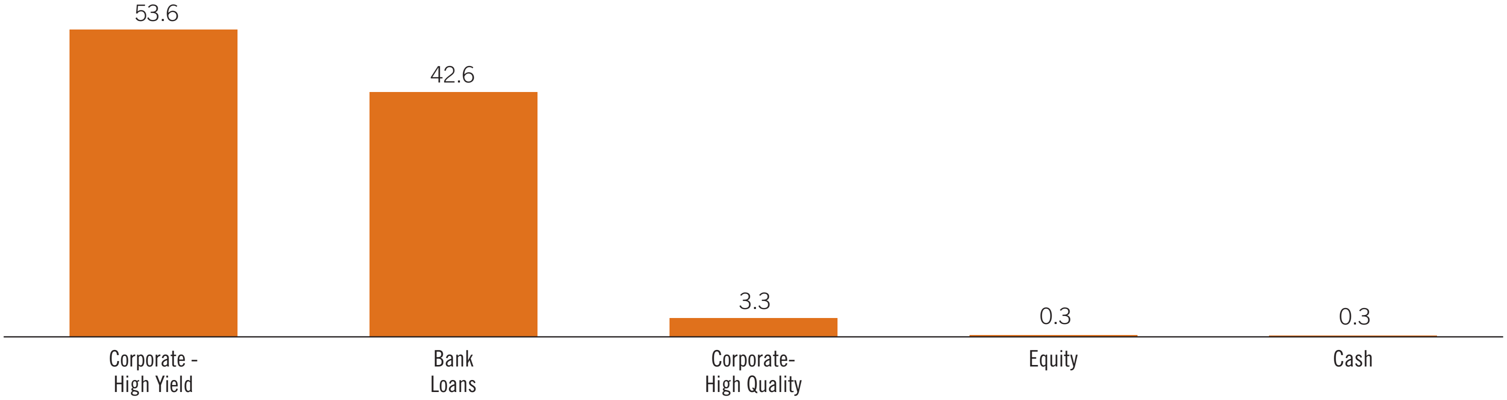
PERFORMANCE (%)



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.

50% S&P LSTA Leveraged Loan/50% Bloomberg Barclays High Yield 2% Issuer Cap. The composite index consists of 50% S&P/LSTA Leveraged Loan Index (an index that tracks the current outstanding balance and spread over LIBOR for fully funded term loans representing a broad cross section of leveraged loans syndicated in the United States, including dollar-denominated loans to overseas issuers, calculated on a total return basis) and 50% Bloomberg Barclays U.S. High-Yield 2% Issuer Capped Bond Index (a market capitalization-weighted index that measures fixed rate non-investment grade debt securities of U.S. and non-U.S. corporations, with no single issuer accounting for more than 2% of market cap, calculated on a total return basis). The composite index is unmanaged, its returns do not reflect any fees, expenses, or sales charges, and is not available for direct investment.

SECTOR ALLOCATION



RISK STATISTICS

	1 Year		3 Years		5 Years		Since Inception 12/1/2014	
	Portfolio	Index	Portfolio	Index	Portfolio	Index	Portfolio	Index
Sharpe Ratio	-0.15	-0.12	0.14	0.15	0.38	0.40	0.40	0.41
Alpha (%)	-0.49	0.00	-0.16	0.00	-0.12	0.00	0.01	0.00
Beta	1.12	1.00	1.11	1.00	1.05	1.00	1.04	1.00
R-Squared (%)	99.65	100.00	99.30	100.00	97.01	100.00	97.03	100.00
Standard Deviation (%)	15.40	13.64	9.44	8.46	7.62	7.18	7.31	6.90
Tracking Error	1.96	0.00	1.24	0.00	1.37	0.00	1.31	0.00
Information Ratio	-0.49	NA	-0.09	NA	-0.02	NA	0.08	NA

RATINGS DISTRIBUTION[1] (%)

	Portfolio
Aaa	0.00
Aa	0.00
A	0.00
Baa	8.58
Ba	34.35
B	43.99
Caa	11.12
Ca	0.22
C	0.21
D	0.18
Not Rated	1.09
Cash	0.25

MATURITY (%)

	Portfolio
Under 3 Years	12.52
3-5 Years	43.20
5-10 Years	42.74
Over 10 Years	1.53

DURATION (%)

	Portfolio
Under 3 Years	52.74
3-5 Years	26.96
5-10 Years	19.30
Over 10 Years	1.00

PORTFOLIO CHARACTERISTICS

	Portfolio
Duration	2.65 yrs
Yield to Worst	7.66%

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: 50% S&P LSTA Leveraged Loan/50% Bloomberg Barclays High Yield 2% Issuer Cap

[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. **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.

NEWFLEET FLEXIBLE CREDIT 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	346	Five or fewer	11.84%	3.36%	11.37%	11.46%	3.22%	N.A.
2018	10.4	361	Five or fewer	-1.14%	3.13%	-1.62%	-0.82%	3.59%	N.A.
2017	12.0	357	Five or fewer	6.69%	3.07%	5.90%	5.80%	4.00%	N.A.
2016	11.7	359	Five or fewer	10.63%	N.A.	9.81%	13.61%	N.A.	N.A.
2015	11.4	264	Five or fewer	0.79%	N.A.	0.04%	-2.55%	N.A.	N.A.
2014‡	12.6	152	Five or fewer	-1.32%	N.A.	-1.38%	-1.35%	N.A.	N.A.

†Benchmark: 50% S&P LSTA Leveraged Loan / 50% Bloomberg Barclays HY 2% Issuer Cap

‡Represents the return for the period 11/30/2014 to 12/31/2014.

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.

The Flexible Credit Composite contains all fully discretionary, fee paying flexible credit and dynamic credit accounts managed by the Newfleet Leveraged Finance team. Effective May 1, 2018, the composite was redefined to be inclusive of dynamic credit accounts. Both flexible credit and dynamic credit accounts have the ability to move away from credit sectors during times of market stress and take defensive positions, including investing in U.S. Treasuries. The strategy focuses on investments in the U.S. and non-U.S. below investment grade sectors, high yield bonds and loans. The strategy will tactically allocate assets across these sectors and from time to time may invest exclusively in one of the asset classes. Additionally, the strategy employs a fundamental approach that emphasizes qualitative and quantitative credit analysis.

For comparison purposes, the composite is measured against a blended benchmark: 50% S&P LSTA Leveraged Loan / 50% Bloomberg Barclays High Yield 2% Issuer Cap. The S&P/LSTA Leveraged Loan Index is a daily total return index that uses the LSTA/LPC Mark to Market Pricing to calculate market value change. On a real-time basis, the index tracks the current outstanding balance and spread over LIBOR for fully funded term loans. The facilities included in the Index represent a broad cross section of the leveraged loans syndicated in the United States, including dollar-denominated loans to overseas investors. The index is unmanaged and not available for direct investment. The Bloomberg Barclays Capital U.S. High Yield 2% Issuer Capped Bond Index is a market capitalization-weighted index that measures fixed rate non-investment grade debt securities of U.S. and non-U.S. corporations. No single issuer accounts for more than 2% of market cap. The index is calculated on a total return basis. The index is unmanaged and not available for direct investment. It is rebalanced monthly.

Newfleet Asset Management, LLC is a registered investment adviser and an indirect wholly owned subsidiary of Virtus Investment Partners. Effective 6/1/2019, the minimum account size for inclusion in the composite is $25 million. Prior to 6/1/2019, the minimum account size for inclusion in the composite was $15 million. The Flexible Credit Composite was created on January 2, 2015. 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 6/1/19, net of fee performance was calculated using 1/12 of the highest fee of 0.34%, applied monthly. For the period 5/1/18 to 5/31/19 the highest fee was 0.55%. For the period 1/1/18 to 4/30/18 the highest fee was 0.36% and prior to 1/1/18 the highest fee was 0.75%. Actual investment advisory fees incurred by clients may vary. The management fee schedule is as follows: First $100 million – 0.45%, over $100 million – 0.40%. 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 Flexible Credit composite has been examined for the periods December 1, 2014 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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