

# 4Q 2023 Bank Loans Strategy

## Strategy Description

- ▶ Flexible investment approach that provides prudent exposure to the bank loan market and strives to outperform the Credit Suisse Leveraged Loan Index over a market cycle.
  - Prioritizes mitigating risk (i.e., volatility, capital loss) predominantly through rigorous fundamental credit analysis and active portfolio management.
  - Identifies and invests in creditworthy issuers—companies with competitive advantages, sustainable capital structures, stable cash flow, and an ability to de-lever.
- ▶ Effectively captures the attractive attributes of the bank loan market—material yield, low interest rate sensitivity, low correlation to fixed rate debt, downside protection.
- ▶ Strategy benefits from the formal knowledge sharing across all global fixed income asset classes provided by Newfleet’s multi-sector platform.
- ▶ Investment guideline: minimum 80% in bank loans/securities, maximum 15% in non-U.S. issuers, maximum 25% in a single industry.

## 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: \$464 million  
Inception: 3/1/2008  
Index: Credit Suisse Leveraged Loan Index

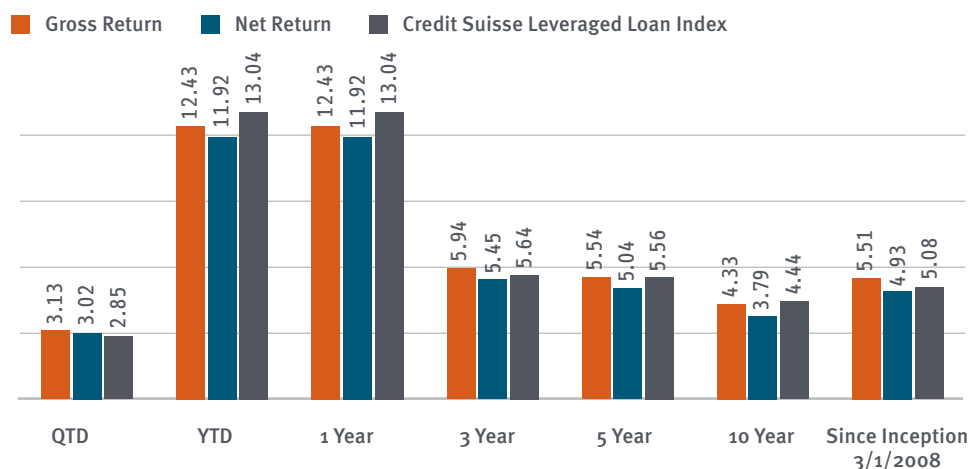
## Portfolio Management

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

**Kyle A. Jennings, CFA**  
Senior Managing Director and  
Head of Credit Research

**Francesco Ossino**  
Senior Managing Director, Senior  
Portfolio Manager, and Bank Loan  
Sector Head

## 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.

## Calendar Year Returns

	2023	2022	2021	2020	2019	2018	2017	2016	2015	2014
Gross	12.43	0.38	5.35	1.17	8.86	-0.05	4.08	9.64	0.53	1.76
Net	11.92	-0.08	4.84	0.66	8.32	-0.55	3.56	8.99	-0.08	1.15
Index	13.04	-1.06	5.40	2.78	8.17	1.14	4.25	9.88	-0.38	2.06

**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.

## Portfolio Characteristics\*

	Portfolio	Index
Option Adjusted Spread	372.38	549.18
Coupon	8.63	9.40
Yield-to-Maturity	7.61	9.09
Effective Duration	0.13	-0.06
Weighted Average Life	3.09	3.11
Average Credit Quality	B1	B2
Number of Holdings	234	1,632
Average Price	98.96	96.69

## Risk Metrics

	Portfolio	Index
Volatility (5-years)	7.43	7.18
Volatility (10-years)	5.57	5.39
Sharpe Ratio (5-years)	0.49	0.51
Sharpe Ratio (10-years)	0.56	0.60

**Sector Distribution\***

	Portfolio
Bank Loans	90.42
Cash	4.45
Corporate - High Yield	4.06
Corporate - Investment Grade	0.77
Equity	0.30

**Ratings Distribution\***

	Portfolio	Index
Baa	3.24	1.16
Ba	18.03	22.80
B	70.06	63.59
CCC and Below	2.74	8.96
Not Rated	1.48	3.49
Cash & Equivalents	4.45	0.00

**Duration Distribution\***

	Portfolio
Under 3 Years	97.32
3-5 Years	2.49
5-7 Years	0.16
Other	0.03

**Top 10 Industries\***

	Portfolio	Index
Healthcare	12.60	12.29
Information Technology	11.47	15.21
Service	9.20	11.79
Gaming/Leisure	7.00	4.65
Manufacturing	5.92	4.27
Food/Tobacco	5.84	3.62
Financial	5.53	7.61
Aerospace	5.16	3.79
Forest Prod/Containers	3.59	2.69
Chemicals	3.51	4.40

**Top 10 Issuers\*\***

	Portfolio
Applied Systems Inc	1.39
Transdigm Group Inc	1.20
Mozart Debt Merger Sub Inc	1.19
Sigma Topco Bv	1.10
Ultimate Software Group Inc	1.10
Peraton Corp	1.07
Westinghouse Electric Co	1.00
Altice France	0.98
Ineos Group	0.98
Froneri Us Inc	0.97

**Maturity Distribution\***

	Portfolio
Under 3 Years	21.31
3-5 Years	77.93
5-7 Years	0.73
Other	0.03

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.

\*\* Top issuers do not reflect any cash positions.

**Index:** The Credit Suisse Leveraged Loan Index is a market-weighted index that tracks the investable universe of the U.S. dollar denominated leveraged loans. The index is 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.

**Bank Loans:** Bank loans may be unsecured or not fully collateralized, may be subject to restrictions on resale, may be less liquid and may trade infrequently on the secondary market. Bank loans settle on a delayed basis; thus, sale proceeds may not be available to meet redemptions for a substantial period of time after the sale of the loan. **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. **Leverage:** When a portfolio is leveraged, the value of its securities may be more volatile and all other risks may be compounded. **Liquidity:** Certain securities may be difficult to sell at a time and price beneficial to the portfolio. **Liquidity:** Certain securities may be difficult to sell at a time and price beneficial to the portfolio. **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

- ▶ Bank loans returned 2.8% for 4Q boosted by positive third-quarter earnings, supportive technicals, and dovish comments from the Fed.
- ▶ The 13.32% total return for 2023 is the best year for bank loans since 2009 and the second-strongest year ever.
- ▶ However, bank loans underperformed high yield and equities for the quarter as market priced in expectations for 2024 rate cuts.
- ▶ Risk-on tone helped loan fund flows turn positive in the second half of 4Q, while collateralized loan obligation (CLO) issuance stayed steady at \$31.9 billion.
- ▶ 2023 saw the lowest levels for new-issue supply (excluding refinancings) since 2009.
- ▶ Loans bid at par or above rose to 38.4% of the market and accelerated repricing transactions. Loans bid at 80 cents or less declined to 4.54%.
- ▶ Spreads are now inside of post-Global Financial Crisis levels (+530 bps) and near non-recessionary spread levels (mid-to-high 400 bps).
- ▶ Even in a mild recession, the starting yield-to-maturity of 10.1% for bank loans provides plenty of cushion against volatility, including an increase in defaults, loan losses, and even the start of Fed rate cuts in 2024.

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

## STRATEGY PERFORMANCE

The Bank Loans Strategy (gross of fees) returned 3.13% in the fourth quarter, outperforming the Credit Suisse Leveraged Loan Index return of 2.85%. For the last 12 months, the Strategy has returned 12.43% vs. 13.04% for the Index. The following is a summary of the contributors and detractors of the representative account of the Strategy.

### Current Quarter Contributors

- ▶ Strong overall issue selection drove this quarter's performance, including selection within manufacturing, retail, services, telecommunications, gaming/leisure, healthcare, information technology, diversified media, and chemicals.

### Current Quarter Detractors

- ▶ Both portfolio cash and legacy equity holdings left over from a restructured credit detracted from performance.
- ▶ Weak issue selection within forest products/containers hurt performance, though this was slightly offset by a positive overweight to the sector.

## CURRENT POSITIONING & STRATEGY

We think the constructive technical backdrop – i.e., low supply, decent demand, and private credit shrinking the market – is a tailwind for loans. That said, we're still of the view that we'll likely face a slowdown, making credit selection critical as credit quality potentially deteriorates.

- ▶ We aim to avoid borrowers that can't cover debt service in a high-interest rate environment.
- ▶ Over 25% of loan market obligors now have less than 1.5x debt service coverage, up from 9% in mid-2021.
- ▶ Though our risk positioning is higher going into 2024, we remain under-risked relative to the market.
- ▶ We continue to monitor the many factors – 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.

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	192	Five or fewer	0.38%	9.19%	-0.08%	-1.06%	8.88%	N.A.
2021	10.1	200	Five or fewer	5.35%	8.78%	4.84%	5.40%	8.46%	N.A.
2020	10.2	369	Five or fewer	1.17%	8.98%	0.67%	2.78%	8.63%	N.A.
2019	10.6	545	Five or fewer	8.86%	3.00%	8.32%	8.17%	2.63%	N.A.
2018	10.4	601	Five or fewer	-0.05%	2.80%	-0.55%	1.14%	2.75%	N.A.
2017	12.0	713	Five or fewer	4.08%	2.54%	3.56%	4.25%	2.63%	N.A.
2016	11.7	692	Five or fewer	9.64%	2.69%	8.99%	9.88%	2.78%	N.A.
2015	11.4	695	Five or fewer	0.53%	2.30%	-0.08%	-0.38%	2.07%	N.A.
2014	12.6	871	Five or fewer	1.76%	2.23%	1.15%	2.06%	1.92%	N.A.
2013	12.3	1,042	Five or fewer	6.40%	3.91%	5.77%	6.15%	3.51%	N.A.

<sup>†</sup>Benchmark: Credit Suisse Leveraged Loan Index

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

The Bank Loans Composite contains all fully discretionary, fee paying floating rate (bank loans) accounts. Emphasis is on investments in fixed income across multiple sectors of the fixed income market with the following restrictions: maximum below investment grade securities 100%, average credit quality is at least B and non-US exposure 0-5%. The strategy may invest up to 20% in high yield bonds. Leverage may be utilized to achieve the investment objective or to meet repurchase requests and for temporary, extraordinary or emergency purposes. The strategy seeks total return and income by investing in non-investment grade bank loans.

As of August 1, 2023, the Floating Rate Composite was renamed the Bank Loans Composite. Effective January 28, 2019, the composite's benchmark is the Credit Suisse Leveraged Loan Index, replacing the previous benchmark, the S&P/LSTA Leveraged Loan Index. This benchmark change is retroactive since inception. The Credit Suisse Leveraged Loan Index is a market-weighted index that tracks the investable universe of the U.S. dollar denominated leveraged loans. It has been selected for the benchmark because it is more widely used within the industry and the manager believes that the new index provides investors with a better correlated statistical tool for investment analysis and research than the prior index. 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. The minimum account size for this composite is \$15 million. The Bank Loans 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.

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 10/1/21, net of fee performance was calculated using 1/12 of the highest fee of 0.45%, applied monthly. For the period 2/1/17 to 9/30/21, the fee was 0.50%, and included performance based fees. Prior to 2/1/17 the fee was 0.60%. Performance Fee: For accounts associated with a performance fulcrum fee, the fee rate will vary by up to +/- 0.18% and the performance fee shall be added to or subtracted from the base fee to arrive at the total fulcrum fee. The comparative index is the Credit Suisse Lev. Loan Index over the applicable measurement period. The performance fee rate will increase/decrease by 0.01% for each 0.0972% of outperformance/underperformance of the index over a trailing 12-month period. The total fulcrum fee (base fee +/- performance fee) is paid monthly in arrears. 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%. The composite inception date is 3/1/08. 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. Policies for valuing investments, calculating performance, and preparing GIPS Reports are available upon request.

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 Bank Loans 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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