Newfleet ASSET MANAGEMENT
A Virtus Investment Partner

High Yield Strategy

MARKET OVERVIEW

In the second quarter, the high yield corporate sector posted its best return since 2009 with a total return over 11% (Bloomberg Barclays U.S. High Yield 2% Issuer Capped Index). The year-to-date return, however, remains negative (-3.83%). The quarter was characterized by a strong recovery triggered by massive fiscal stimulus and monetary easing. The Fed's program of directly buying corporate bonds and also buying high yield ETFs triggered a massive rally in prices. Fund flows quickly switched from large outflows to huge inflows—12 straight weeks of record-breaking inflows during the month of April and May—as investors looked to buy bonds at historically cheap valuations and to front-run the Fed. After being closed for most of March, issuers took advantage of the reopening of the high yield new issue market to raise funds to build liquidity or push off maturities. The mix of issuance was different in form than is typical, i.e., more secured issuance with shorter average maturities. Businesses facing enormous challenges from economic shutdowns, such as cruise lines and airlines, were able to issue albeit at expensive rates. The new issuance culminated in June breaking the record for most issuance in a month. Rating downgrades accelerated sharply during the quarter with several large investment grade names being downgraded to high yield. 2020's fallen angels now make up over 10% of the high yield index market value. The default rate also rose throughout the quarter and is now at a 10-year high with energy unsurprisingly driving a significant portion of that.

In a reversal from last quarter, energy was the best performing sector, led by integrated (+82.7%), independent (+48.7%), and midstream (+34.3%). Consumer cyclicals also had some outperformers, including auto (+13.3%), lodging (+14.0%), gaming (+11.8%), and home construction (+11.0%). The only sector with a negative return was airlines (-14.6%). Other notable laggards were leisure (+3.2%), cable-satellite (+2.9%), and pharmaceuticals (+3.3%).

HOW THE STRATEGY PERFORMED

The Strategy returned 11.34% (gross of fees) in the second quarter versus the 10.14% return of the Bloomberg Barclays U.S. High Yield 2% Issuer Capped Bond Index.

Positive Contributors

> The Strategy's overweight to CCCs benefited performance as the market rebounded and risk rallied.

> The Strategy's allocation to out-of index positions contributed positively as it included some generally riskier positions that performed well in the risk-on environment. The investment grade positions generated strong returns by capturing elevated new-issue discounts.

> Security selection in cable-satellite, food & beverage, and metals & mining was also additive.

Detractors

> The Strategy's underweight to the energy sector was a detractor as it was the top-performing sector over the period.

> The modest cash position contributed negatively during the market rally.

CURRENT STRATEGY POSITIONING

> The Strategy is positioned with a core portfolio of high yield bonds supplemented by select positions in out-of-index securities, primarily term loans and investment grade bonds that we expect to outperform the high yield market. We have increased our allocation to investment grade bonds due to what we view as attractive valuations and to gain exposure to business models not available in the high yield market.

> The Strategy continues to maintain an overweight to riskier credits but our CCC holdings tilt toward higher quality.

> We continue to monitor our COVID exposures. Our investment thesis has not changed. We continue to watch near-term liquidity as well as the long-term impacts that COVID-19 is having on companies with the intention of investing in those companies that we feel can withstand the current economic environment.

OUTLOOK

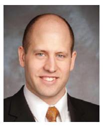
The outlook for high yield is a balancing act between valuations still at historically attractive levels and mixed coronavirus data. The last week of the second quarter showed investors shifting back toward a focus on the virus as flows turned negative and more COVID-exposed names traded lower. While investors initially expected the virus to impact the first or second quarters, it is becoming clear that some impacts will continue for the rest of 2020 and with possible extensions into 2021. The unknown length of the impact makes it difficult to determine if the liquidity boosting measures done by COVID-exposed issuers are adequate. Another issue is whether the additional leverage has longer-term solvency concerns even if earnings return to pre-COVID levels. Aggregate fundamentals in terms of credit metrics will likely be at all-time weak levels following second quarter earnings. Overall, we expect further spread tightening throughout the year given the likelihood of continued monetary stimulus, additional fiscal stimulus, and attractive starting valuations. Risks remain around the evolution of economic closures related to the virus, the amount of temporary impacts that become permanent, and the longer-term impacts on the economy from this period of volatility and job losses. 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

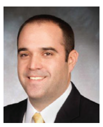
David L. Albrycht, CFA
Industry start date: 1985

Kyle A. Jennings, CFA
Industry start date: 1992

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

Newfleet's high yield strategy is founded on the belief that downside risk can be limited, and thus losses avoided, through two complementary approaches: rigorous credit analysis and active portfolio management.

Newfleet's investment process focuses on adding value through both sector/industry and issue selection. Newfleet uses a top down approach to determine which industries to over or underweight based on the current stage of the credit cycle. Bottom up, rigorous credit and company analysis focuses on loss avoidance. Active management emphasizes a broadly diversified portfolio.

The strategy seeks to generate a competitive total return from both income and capital appreciation.

INVESTMENT PROCESS

STEP 1 **Top-Down Sector and Industry Analysis**

- Identify risks and opportunities

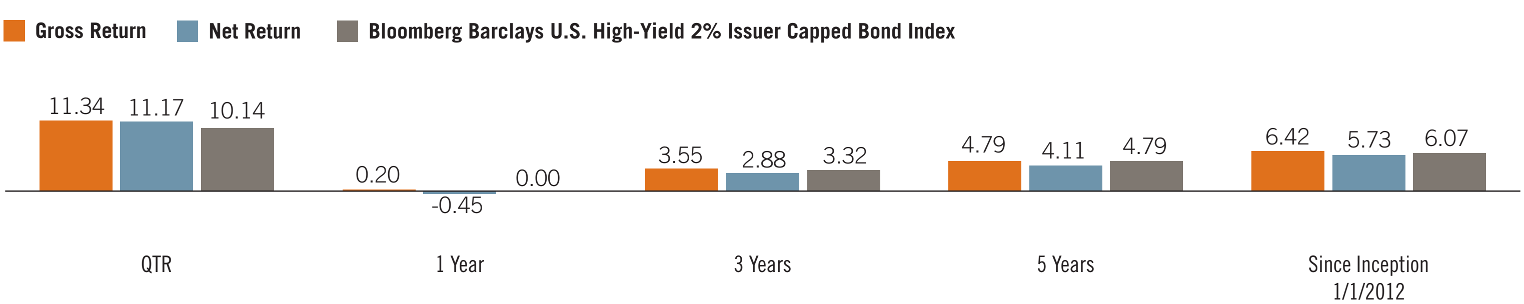
STEP 2 **Intensive Credit Research**

- Determine business viability

STEP 3 **Portfolio Construction and Opportunistic Trading**

- Diversify across credit ratings, issues, and industry groups
- Dedicated trader takes advantage of mispricings, market dislocations, and other special situations

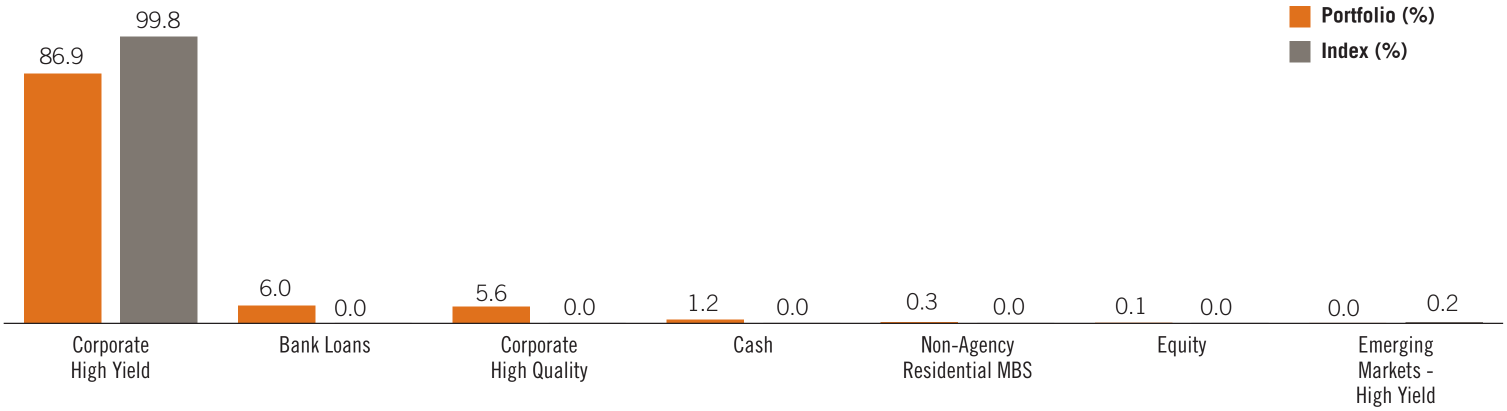
PERFORMANCE (%)



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 Bloomberg Barclays 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 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 1/1/2012	
	Portfolio	Index	Portfolio	Index	Portfolio	Index	Portfolio	Index
Sharpe Ratio	-0.01	-0.05	0.23	0.22	0.47	0.49	0.83	0.81
Alpha (%)	0.59	0.00	0.12	0.00	-0.06	0.00	0.17	0.00
Beta	1.13	1.00	1.11	1.00	1.02	1.00	1.03	1.00
R-Squared (%)	99.55	100.00	99.19	100.00	96.73	100.00	96.98	100.00
Standard Deviation (%)	15.21	13.36	9.59	8.61	8.13	7.82	6.99	6.66
Tracking Error	2.08	0.00	1.29	0.00	1.50	0.00	1.25	0.00
Information Ratio	0.10	NA	0.18	NA	0.00	NA	0.28	NA

RATINGS DISTRIBUTION[1] (%)

	Portfolio	Index
Aaa	0.00	0.00
Aa	0.00	0.00
A	0.52	0.00
Baa	10.59	0.00
Ba	40.78	54.66
B	30.51	32.26
Caa	15.10	12.32
Ca	0.23	0.52
C	0.00	0.24
D	0.09	0.00
Not Rated	1.02	0.00
Cash	1.16	0.00

MATURITY (%)

	Portfolio	Index
Under 3 Years	14.11	27.93
3-5 Years	35.06	31.42
5-10 Years	48.30	33.90
Over 10 Years	2.53	6.75

DURATION (%)

	Portfolio	Index
Under 3 Years	22.63	39.18
3-5 Years	43.50	38.34
5-10 Years	32.35	18.83
Over 10 Years	1.52	3.65

PORTFOLIO CHARACTERISTICS

	Portfolio	Index
Duration	4.17 yrs	3.90 yrs
Yield to Worst	7.44%	6.89%

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: Bloomberg Barclays U.S. High-Yield 2% Issuer Capped 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. **Industry/Sector Concentration:** A fund that focuses its investments in a particular industry or sector will be more sensitive to conditions that affect that industry or sector than a non-concentrated fund. **Foreign Investing:** Investing internationally involves additional risks such as currency, political, accounting, economic, and market risk **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.

HIGH YIELD 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	60	Five or fewer	15.61%	4.19%	14.87%	14.32%	4.02%	N.A.
2018	10.4	57	Five or fewer	-2.26%	4.03%	-2.89%	-2.08%	4.59%	N.A.
2017	12.0	69	Five or fewer	7.25%	4.64%	6.56%	7.50%	5.56%	N.A.
2016	11.7	73	Five or fewer	14.46%	5.18%	13.73%	17.13%	5.99%	N.A.
2015	11.4	72	Five or fewer	-1.75%	5.19%	-2.39%	-4.43%	5.25%	N.A.
2014	12.6	85	Five or fewer	3.27%	4.94%	2.61%	2.46%	4.50%	N.A.
2013	12.3	97	Five or fewer	7.61%	na	6.91%	7.44%	na	N.A.
2012	10.8	110	Five or fewer	17.33%	na	16.58%	15.78%	na	N.A.

†Benchmark: Bloomberg Barclays U.S. High-Yield 2% Issuer Capped Bond Index

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 High Yield Composite contains all fully discretionary high yield accounts. Emphasis is on seeking diversification and the potential rewards associated with investing in high yield fixed income securities. The strategy seeks to invest across multiple sectors of the fixed income market with a maximum of 100% below investment grade securities. The average credit quality is at least B and non-US dollar exposure is between 0-5%.

For comparison purposes, the composite is measured against the Bloomberg Barclays U.S. High Yield 2% Issuer Capped Bond Index. The index is a market capitalization-weighted index that measures fixed rate noninvestment 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, its returns do not reflect any fees, expenses, or sales charges, and is not available for direct investment.

Newfleet Asset Management, LLC is a registered investment adviser and an indirect wholly owned subsidiary of Virtus Investment Partners. Effective January 1, 2014, the minimum account size for this composite is $10 million. Prior to January 1, 2014, the minimum account size for this composite was $15 million. The High Yield 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 assetweighted 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. Net of fee performance was calculated using 1/12 of the highest fee of 0.65%, applied monthly. 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 High Yield composite has been examined for the periods January 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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