November 2024

AVOIDING "LAZY LONGS"... BE INTENTIONAL WITH BONDS

Investment views from our partners at Insight Investment

We continue to see significant interest from investors in fixed income given recent high absolute yields and falling interest rates. However, in a world of tight credit spreads, we believe it is not the time for "lazy longs" or a fixed income investment that is heavily weighted in a more static credit allocation, potentially exposing investors to higher market volatility. Instead, we believe investors should consider an intentionally managed multi-sector approach when returning to fixed income.

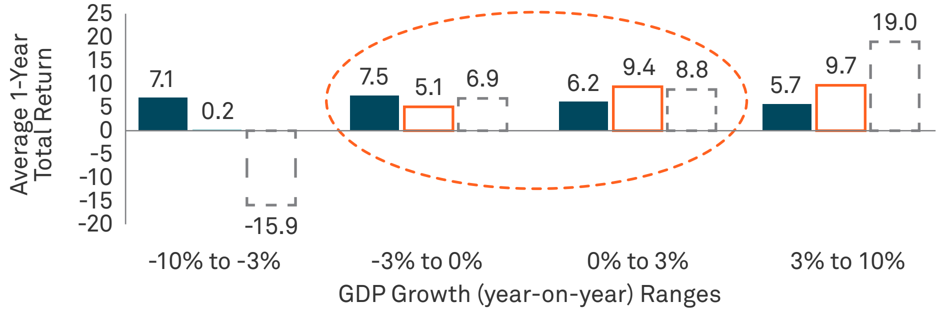
CREDIT LOOKS WELL-POSITIONED TO WITHSTAND A MODERATING ECONOMY.

Insight's economic "regime" analysis indicates that gross domestic product (GDP) growth is slowing from its recent ~3% trend, but is potentially stabilizing, indicating a more moderate GDP growth environment (0% to 3%).

This scenario could suit credit markets. On average, bonds have historically delivered equity-like returns during modest growth environments, but with predetermined cash flows (the interest and principal repayments contractually promised when the bond was issued).

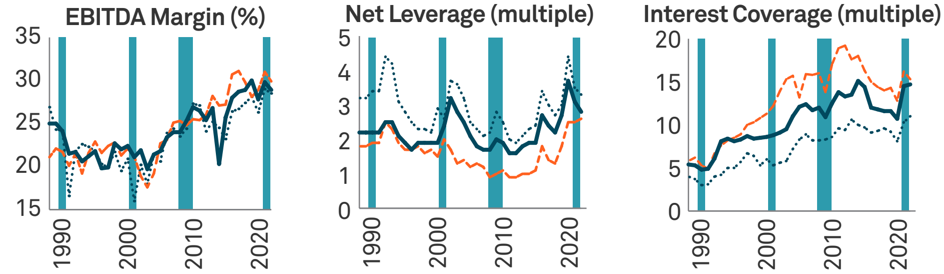
Further, we believe that corporate bonds are fundamentally well positioned for a moderating economy. EBITDA[2] margins are at record levels, while net leverage and interest coverage ratios are also secularly strong.*

CREDIT MARKETS TEND TO PERFORM WELL IN PERIODS OF MODERATE OR NEGATIVE GDP GROWTH[1]



Charts are for illustrative purposes only. **Past performance is not indicative of future results. Investment in any strategy involves a risk of loss which may partly be due to exchange rate fluctuations.**

CREDIT FUNDAMENTALS REMAIN STRONG WHILE DECLINING RATES MAY HELP COMPANIES MEET THEIR DEBT OBLIGATIONS[3]



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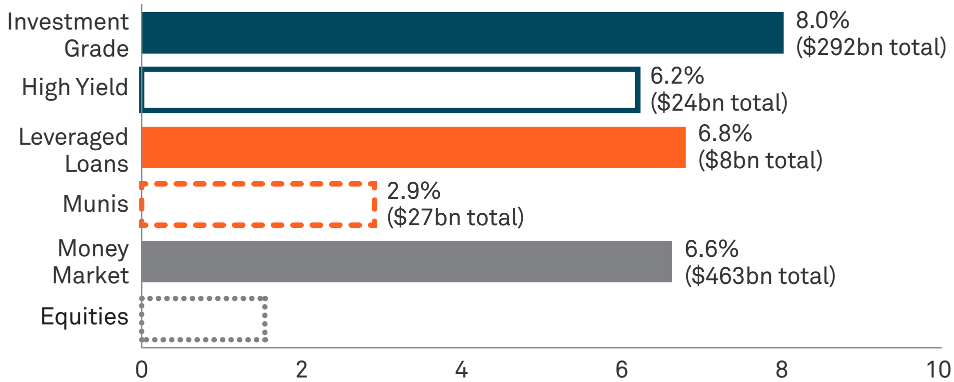
[1] Bloomberg (Investment Grade = Bloomberg US Corporate Index, High Yield = Bloomberg US Corporate High Yield Index, S&P 500 Index), data collected from January 1989 to October 2024. [2] EBITDA represents earnings before interest, taxes, depreciation and amortization. EBITDA margin is a profitability ratio that measures a company's earnings generated before EBITDA, as a percentage of revenue.
[3] FactSet, Compustat, Bloomberg Indices, Barclays Research. Issuers with split ratings not included in ratings calculations, June 2024.
* A net leverage ratio, or debt-to-EBITDA ratio, is a calculation that measures a company's debt level and ability to repay it. Interest Coverage Ratio (ICR) is used to determine a company's ability to pay the interest on its outstanding debt.

Technicals also appear favorable. Investment grade credit inflows have accelerated through the year and surpassed all other major asset classes as a percent of assets under management (AUM).

FIXED INCOME INFLOWS, PARTICULARLY INVESTMENT GRADE, HAVE BEEN STRONG[4]

Inflows 2024 Year-to-date (share of AUM)



Investment Grade = Bloomberg US Corporate Index, High Yield = Bloomberg US Corporate High Yield Index, Leveraged Loans = Bloomberg US Leveraged Loan Index, Munis = Bloomberg US Municipal Bond Index, Equities = S&P 500 Index.

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HOWEVER, WE BELIEVE INVESTORS SHOULD TRY TO AVOID "LAZY LONGS."

While bond yields remain attractive in our view, credit spreads have tightened from their widest levels of the last three years.

A bond strategy that is heavily weighted in more static credit allocations (often a hallmark of core plus strategies) could potentially expose investors to bouts of market volatility, particularly in an environment characterized by elevated geopolitical risks and a presidential election campaign.

Following the 2008 global financial crisis, many core plus strategies were structurally overweight in credit but unraveled or fell apart during the pandemic.

We believe investors should consider a more intentional and dynamic multi-sector core plus strategy that focuses on security selection and multi-sector diversification.

As investors allocate to fixed income, we see three key ways they can seek to optimize their exposure:

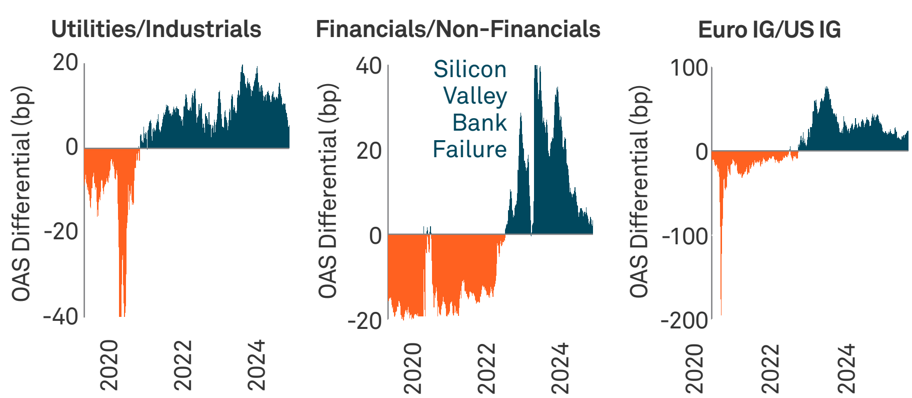
01 Enhance credit spread through security and sector selection.

Targeting relative value[5] through diligent bond picking can potentially take advantage of market inefficiencies to improve spread without increasing credit risk.

For example, we currently believe utilities offer an outsized premium relative to industrials, and financials compare well relative to non-financials. In our view, both sectoral spread differentials have the potential to revert to historical norms. Investors may benefit from rigorous security selection within these sectors. For those able to take advantage of global credit markets, there may still be security-specific opportunities to secure a spread pick up in European credit for equivalent risks to comparable bonds issued in the US market.

UTILITIES AND FINANCIALS MAY OFFER COMPELLING RELATIVE SPREAD VALUE[6]

Spread Differentials



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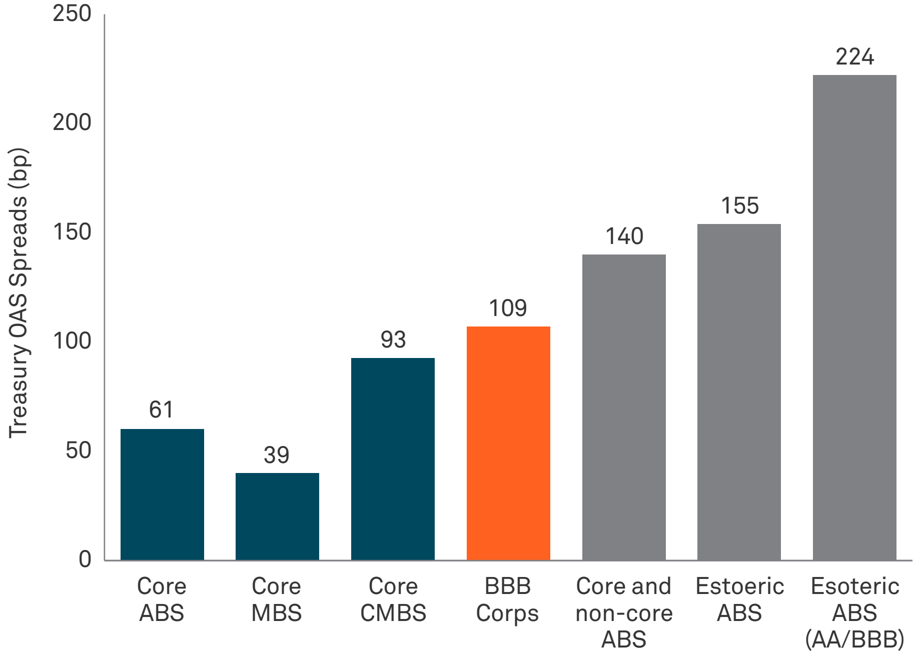
[4] JP Morgan, Emerging Portfolio Fund Research (EPFR), September 2024. [5] Relative value is a method of determining an asset's worth that takes into account the value of similar assets. [6] Bloomberg, Insight, October 2024. **Charts are for illustrative purposes only. Past performance is not indicative of future results. Investment in any strategy involves a risk of loss which may partly be due to exchange rate fluctuations.**

02 Enhance spread through high-quality esoteric structured credit.[7]

Within the structured credit market, we currently see particularly attractive value in "esoteric" asset-backed securities. Esoteric fixed income is an investment vehicle only offered to a unique set of investors due to its complex structure and pricing, whereas more traditional fixed income investments are open to the general public. We estimate outstanding issuance was at $400bn at the end of 2023, up ~$100bn since 2020.[8]

At the moment, our favored sectors include certain consumer-related deals, such as AAA-rated home improvement asset-backed securities (ABS), backed by loans to high-income homeowners with high levels of home equity. They currently offer spreads in the region of 100 basis points (bp) above Treasuries for AAA credit risk.[9] We also see value in deals backed by aircraft loans and data centers where we find investors can reasonably access spreads of 150bp to 200bp above Treasuries. However, across all these deals, rigorous issuer selection and consideration for deal terms is crucial.

ESOTERIC STRUCTURED CREDIT CAN POTENTIALLY OFFER WIDER SPREADS YET HIGH CREDIT QUALITY[10]



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03 We suggest allocating from lower-rated credit into Treasuries for diversification and "dry powder."

In bond market sectors where credit spreads have significantly tightened and offer lower risk-adjusted returns such as lower rated high yield, investors may want to tactically shift allocations into low-risk US Treasuries. Due to the yield environment, investors may potentially still achieve meaningful income and benefit from capital gains if yields fall in the event of a "flight-to-quality" event which benefits Treasuries.

Treasuries can also act as "dry powder," i.e., an investment that can be liquidated on short notice to take advantage of any market volatility (and associated risk market selloffs) to add credit exposure at wider spreads.

We find markets are often highly reactive to market noise and news flow. With political risk events on the horizon alone, we believe in a patient, yet rigorous value-based approach.

CONCLUSION: AS YOU RETURN TO FIXED INCOME, BE INTENTIONAL

As investors look to lock in fixed income yields and take advantage of rate cuts, we believe they should avoid "lazy longs." In our view, a multi-sector core plus strategy that prioritizes security selection and has the flexibility to invest across sectors may offer investors a platform to lock in yields, optimize spreads and hold "dry powder" to capitalize on potential bouts of volatility.

[7] Esoteric debt is an investment vehicle offered only to a unique set of investors due to its complex structure and pricing. [8] Finsight, proxied by trailing 5-year issuance, as of December 31, 2023. [9] Intex, Insight, October 2024. [10] Bloomberg, ICE, Insight, October 2024. Core ABS = Bloomberg US ABS Index, Core MBS = Bloomberg US Mortgage Backed Securities (MBS) Index, Core CMBS = Bloomberg US CMBS: Erisa Eligible Index, BBB Corps = ICE BofA BBB US Corporate Index, Core and non-core ABS = ICE BofA US ABS and CMBS Index, Esoteric ABS = ICE BofA US Fixed Rate Miscellaneous Asset Backed Securities Index, Esoteric ABS = ICE BofA AA-BBB US Fixed Rate Miscellaneous Asset Backed Securities Index.

All investments involve risk including loss of principal. Certain investments involve greater or unique risks that should be considered along with the objectives, fees, and expenses before investing.

Equities are subject to market, market sector, market liquidity, issuer, and investment style risks to varying degrees. Small wand midsized company stocks tend to be more volatile and less liquid than larger company stocks as these companies are less established and have more volatile earnings histories. **Bonds** are subject generally to interest-rate, credit, liquidity, call and market risks, to varying degrees. Generally, all other factors being equal, bond prices are inversely related to interest-rate changes and rate increases can cause price declines. **High yield bonds** are subject to increased credit risk and are considered speculative in terms of the issuer's perceived ability to continue making interest payments on a timely basis and to repay principal upon maturity. The use of **derivatives** involves risks different from, or possibly greater than, the risks associated with investing directly in the underlying assets. Derivatives can be highly volatile, illiquid, and difficult to value and there is the risk that changes in the value of a derivative held by the portfolio will not correlate with the underlying instruments or the portfolio's other investments. Investing in **foreign denominated and/or domiciled securities** involves special risks, including changes in currency exchange rates, political, economic, and social instability, limited company information, differing auditing and legal standards, and less market liquidity. These risks generally are greater with emerging market countries.

No investment strategy or risk management technique can guarantee returns or eliminate risk in any market environment. Asset allocation and diversification cannot assure a profit or protect against loss.

FDIC is Federal Deposit Insurance Corp. A **credit spread,** also known as a yield spread, is the difference in yield between two debt securities of the same maturity but different credit change to quality. **Investment grade** is a rating given to bonds or other debt securities that have a low risk of default. A **basis point (BPS)** is a unit of measure used to indicate percentage changes in financial instruments. **EBITDA** is earnings before interest, taxes, depreciation, and amortization. It measures a company's profitability from its core operations. **Gross domestic product (GDP)** is the total monetary or market value of all the finished goods and services produced within a country's borders in a specific time period. As a broad measure of overall domestic production, it functions as a comprehensive scorecard of a given country's economic health. An economic **regime** is a set of rules and institutions that govern the economy and explain its behaviors. **Mortgage-Backed Security (MBS)** is an investment similar to a bond that is made up of a bundle of home loans bought from the banks that issued them. Investors in MBS receive periodic payments similar to bond coupon payments. **Asset-Backed Security (ABS)** is a financial security such as a bond or note which is collateralized by a pool of assets such as loans, leases, credit card debt, royalties, or receivables. **Commercial mortgage-backed securities (CMBS)** are fixed-income investment products that are backed by mortgages on commercial properties rather than residential real estate. **Option Adjusted Spread (OAS)** is the measurement of the spread of a fixed-income security rate and the risk-free rate of return, which is then adjusted to take into account an embedded option.

Core-plus strategies are investment funds that primarily invest in investment-grade US fixed-income issues, but can also include non-core sectors. Core-plus funds are more flexible than core funds and can include: Corporate high yield, Bank loan, Emerging-markets debt, and Non-US currency exposures. The **S&P 500 Index** is a market-capitalization-weighted index of 500 largest leading publicly traded companies in the US The **Bloomberg US Corporate Index** measures the investment grade, fixed-rate, taxable corporate bond market The **Bloomberg US Corporate High Yield Bond Index** measures the USD-denominated, high yield, fixed-rate corporate bond market. The **Bloomberg CMBS: Erisa Eligible Index** measures the market of US Agency and Non-Agency conduit and fusion CMBS deals. The **Bloomberg US ABS Index** is a broad-based flagship benchmark that measures the investment grade, US dollar-denominated, fixed-rate taxable bond market. The index only includes ABS securities. **The Bloomberg US Mortgage Backed Securities (MBS) Index** tracks fixed-rate agency mortgage backed pass-through securities guaranteed by Ginnie Mae, Fannie Mae, and Freddie Mac. The **Bloomberg US CMBS Investment Grade Index** measures the market of US Agency and Non-Agency conduit and fusion CMBS deals. The **ICE BofA BBB US Corporate Index** is a subset of the ICE BofA US Corporate Master Index that tracks the performance of investment grade corporate debt in the US. The **ICE BofA US ABS and CMBS Index** tracks the performance of investment grade asset-backed securities (ABS) and commercial mortgage-backed securities (CMBS) in the United States. The **ICE BofA US Fixed Rate Miscellaneous Asset Backed Securities (ABS) Index** tracks the performance of ABS that are rated AA to BBB and are collateralized by anything other than: auto loans, home equity loans, manufactured housing, credit card receivables, and utility assets. The **ICE Bank of America (BofA) AA-BBB US Fixed-Rate Miscellaneous Asset-Backed Securities (ABS) Index** tracks all ABS collateralized by anything other than: auto loans, home equity loans, manufactured housing, credit card receivables, and utility assets. **Bloomberg US Leveraged Loan Index** is a financial tool that tracks the performance of leveraged loans in the United States. The **Bloomberg Municipal Bond Index** is a market-value-weighted index that tracks the performance of the US municipal bond market. Investors cannot directly invest in an index.

Bond ratings reflect the rating entity's evaluation of the issuer's ability to pay interest and repay principal on the bond on a timely basis. Bonds rated BBB/Baa or higher are considered investment grade, while bonds rated BB/Ba or lower are considered speculative as to the timely payment of interest and principal. Credit ratings reflect only those assigned by Nationally Recognized Statistical Rating Organizations (NRSRO) that have rated fund holdings. Split-rated bonds, if any, are reported in the higher rating category.

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