NORTH SQUARE
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CS McKee and Red Cedar's Core Plus Bond Strategy: Attractive Rates of Current Income and Active Management Uncovering Value

Diane Merritt:

Welcome to North Square Investments Active Insights podcast. North Square Investments is dedicated to bringing differentiated active investment strategies to financial advisors and investors through our multi-boutique asset management platform.

Today, Mark Goodwin, Chief Executive Officer of North Square Investments, Brian Allen, Chief Investment Officer with CS McKee, and John Cassady, Chief Investment Officer with Red Cedar Investment Management will discuss the fixed-income market and the advantages these two portfolio management teams bring to North Square's Core Plus Bond strategy.

CS McKee is an affiliate of North Square and Red Cedar is a partner firm in the North Square platform. Each firm is a sub-advisor for the North Square Core Plus Bond Fund: Ticker STTIX.

Mark, Brian, John, we look forward to your discussion.

Mark Goodwin:

Thanks. As you mentioned, at North Square we seek out best-in-class active managers for our platform, and our partners at CS McKee and Red Cedar have proven repeatable approaches to fixed income investing. As sub-advisors for our Core Plus Bond strategy, CS McKee manages the investment-grade component of the portfolio, and Red Cedar manages the plus or non-investment-grade component.

North Square determines the allocation between the sub-advisors. And currently 65% of the portfolio is allocated to investment-grade securities with 35% allocated to non-investment-grade.

Brian, to start with you, can you discuss the overall strategy and objectives of the Core Plus Bond Fund?

Brian Allen:

Certainly, the marriage of McKee and Red Cedar combine demonstrated strength in their respective areas. McKee as a purely investment-grade true core investment manager with very attractive long-term risk-adjusted rates of return, and Red Cedar with a fairly unique approach on the plus side of the equation. Also, with a long history of adding consistent value. So, we think the combination will be an attractive offering for a fairly wide range of retail and institutional investors.

Mark Goodwin:

Can you talk about your investment approach to selecting investment-grade bonds and building that portfolio component?

Brian Allen:

McKee has always been a bottom-up, primarily a focused shop. We don't make large interest-rate calls or quality calls. We're very much focused on quality and liquidity overall. We spend 80% of our time analyzing relative value in the investment-grade universe offsetting that. And what was really the most unique portion of our focus is in the government agency space where we find a universe of securities well beyond what appears in most benchmarks, and that has really allowed us to add consistent value without taking additional credit risk. And again, that's a nice foundation, a nice piece to marry with the unique approach that Red Cedar has in the high-yield space.

Mark Goodwin:

Thanks, Brian. John, you have a broad range of assets in your investment universe. Can you talk about your approach to building the non-investment grade sleeve of the strategy?

John Cassady:

Yeah, sure, Mark. It's kind of born out of, I think if you take a page out of the institutional investment consulting framework, recently, they've developed a category called multi-asset credit, which is, it's really designed so that managers can rotate between different parts of the credit spectrum where they find value just so they can make tactical moves, that sort of thing. And typically, they'll maybe rotate between high yields, CLOs, maybe emerging market, and it gives the manager who's in the trenches the ability to go where they find value.

So, if you think about that from the institutional world, what we're trying to do here in our product is find those areas. We would say, "Well, we're rotating between traditional high yield." Think about them, going to date myself here, Michael Milken, junk bonds, as they used to say back in the day. So, traditional high yield, if there is such a name there, a structured product or securitized if you want to go back to the financial crisis and think about all the mortgage bonds and so forth. Definitely, there's some opportunities there that we can rotate between.

And then, the third prong of that would be preferred securities. What I would say is that there's a lot of inefficiencies and kind of these three prongs that we play in. The first thing we try to do is we want to ascertain relative value between each of the three, where's the best risk reward kind of thing. But then, it's also... So, that's from a top-down approach. But then, it also, there's no substitute for a good old-fashioned, bottom-up security selection doing your analysis there.

So, once we decide which of those three sectors represent the best relative value, I'll give you an example here on the high yield side. We utilize a three-factor credit model that was developed here by our Senior Credit Strategist, Brad Phillips. So, the three factors we look at, and this is all looking at statistically driven numbers, looking back historically, we're looking at number one, just good old-fashioned fundamentals, then a relative value factor that gets applied, and then a probability of default.

And what that does is, we've got all kinds of data going back historically, run it through the model, helps us determine through the lens of those three factors where there is value in traditional high yield. And by that, I mean, it kind of winnows it down to well, what sector, what rating and what industry, and then what tenor. And then, it helps us then fine tune and go and look in wherever it tells us, "Okay, what names do we want to look at?" Sometimes, you find that, "Oh, well, something looks cheap in the model for a reason." You don't want to touch it with a 10-foot pole. But it really helps this with a laser-like focus, decide where we want to go and put high yield into the portfolio.

And then, from there, I guess I'd say on the securitized side, a lot of bottom-up fundamental analysis, best worst-case scenarios, that kind of thing goes into it. And what we end up with at the end of the day here is a portfolio that we think gives you a lot of reward relative to the risk that you're undertaking. And that's the goal here on the high yield or the plus side of the equation.

Mark Goodwin:

John and Brian, I view both of your teams as all-stars in your respective spaces of fixed income. I'll start with you Brian first, how do the two teams coordinate, so the two sleeves are complementary and work towards the common objectives of the fund?

Brian Allen:

A lot of communication between the teams running the total portfolio through our systems to measure overlap in securities or sector industry weightings. And then, when it comes to portfolio duration, really Red Cedar takes the lead on that portion of the risk exposure.

Mark Goodwin:

John, similarly, how do you view risk management for the overall portfolio? And can you envision a situation where the two teams might have different views on the market and how that would be resolved?

John Cassady:

Yes, risk management, I mean, certainly, as Brian alluded to, takes a lot of coordination. We're looking not only at our sleeve of the portfolio but at the overall portfolio itself. We at Red Cedar, we're taking the lead on the interest rate side of the equation or duration, how do we want to position ourselves. And then, we think almost as important as... And actually, certainly, I think at this moment in time is key, rate duration, where do you want to be positioned along the yield curve?

So, definitely, looking at that, keeping a close eye on it. The reality of the situation is, as Brian said, they don't tend to take a lot of interest rate risk, and I hope I'm not putting words in his mouth. But I think they tend to be agnostic on the duration relative to the benchmark. Whereas, we're comfortable doing that. With all that being said, though, we're not sitting here taking pretty huge swings at the bat with regard to duration. Like right now for instance, we do think that you are not being paid to take a ton of interest rate risk, so we're slightly short the duration of the benchmark.

So, the Bloomberg US Aggregate Bond Index is about 6.1 years duration and we're holding this thing at like 5.8 years duration, so about 5% short relative to the benchmark. That's generally as wide as we will get relative to the benchmark. I know the Morningstar category for Core Plus would allow it to go wider,

and maybe there would be opportunistic moments in time to do that. But for our purposes, we're generally going to be 90% to 110% duration of the benchmark.

And then, going back to, if I could for just a second to discuss the long end of the yield curve, there's no term premium in the yield curve if you think about 10 and 30 years out, and we just think that you're not getting paid to take a lot of interest rate risk in here. And so, that could change. You could have a risk off moment and the yield curve pancakes or perhaps the Fed and their infinite wisdom comes in at some point in time, we've seen them do it before with regard to yield curve control, that sort of thing. But that is not our base case at this moment.

But certainly, something that is definitely in the back of your mind as you try to manage the overall risk of the portfolio. And then, I guess, if you want to take risk management a further level, going back to our three-factor model on credit, certainly, we're sitting here looking at fundamentals and probability of default. Those are keys for us.

So, that's why we use the credit model that we use. And right now, we're finding value in the single B[1] space in terms of rating category of high yield, and then opportunistically and triple Cs. That's where we find that you're getting a lot of bang for your buck right now. Currently, double Bs are just, they're very, very expensive.

Overall, high yield though, when you want to talk about risk management, the balance sheet, this is not 2015, 2016. Balance sheets are pretty well shored up. So, you cannot just look at spreads. You have to look at that fundamental piece of the balance sheets and how these companies look at this point in time.

Mark Goodwin:

Thank you, John. Brian, John, the Fed has been easing rates. The rate of inflation has improved, economic growth has been resilient, but federal deficits remain challenging. We have significant geopolitical tensions and the new administration taking office in the US. That seems like a lot.

I must start with you first, Brian, where do you see the markets? I was going to ask about, currently, but we only have two weeks left in the year. What's your outlook on the markets for 2025 in terms of rate cuts, the economy and just broad general thoughts?

Brian Allen:

Oh, I think the market is close to fairly valued at this point. Real yields are right around 2%, which has historically indicated some good value, good purchase opportunities. But we think the market has realized the growth will continue into 2025. The odds for recession have come down, the number of Fed rate cuts priced into the market has come down by four or so end of the year. 2025, the market's now expecting terminal rate of about 375. That's fully 100 basis points north of the lows we saw in September just prior to the Fed's 50 basis point rate cut.

And we think, frankly, at the sector level, we'll continue to find in our space better value in the agency market versus the overall level of spreads and relative value in corporate credit. We're in the lower decile of yield spreads versus treasuries in the investment grade market going back 20, 30 years or more.

I think the enthusiasm over the new administration has been fully priced in both in stocks, almost fully in stocks and pretty much the case is true in investment rate, corporate credit, tariffs, deregulation, anything that can benefit. The bottom line I think has been carried forth into relative value. And frankly, the momentum of the markets has carried spreads fairly tight.

So, again, we think we are slightly underweight. Corporate credit at this point in time had a more significant overweight in the mortgage market for the first time in many years, but those values have improved as well. So, we go into the next year with a slight overweight to the agency market and that's a combination of agency debentures and agency mortgages.

A little defensive on corporate credit and duration, slightly short of the benchmark, not to the 5% level. But for the overall portfolio, I'm quite happy with a defensive bias with respect to portfolio duration, given the fact that the trend in yields certainly is higher. And I do think we'll find out tomorrow, but on the 18th is the next FOMC (Federal Open Market Committee) meeting.

The market has fully priced in the 96%. Last I looked rate cut again in December, but the commentary following the meeting should point towards a little more cautious approach, reiterating the fact that the Fed is data dependent. And as we've seen, the consumer who has long since spent all the stimulus money that was provided in 2020 and '21, it certainly kickstarted the economy. Unemployment remains fairly low. Job growth is now slowing, but still positive. Wage growth is slightly above the rate of inflation.

So, consumers are gradually recovering purchasing power. But for those who were fortunate enough to own a home and had the chance to refinance in 2020, for those who are net savers and have money invested in the stock market, the combination, the wealth effect is really driving consumer demand. And we think that while it does slow a little next year, it's a long way from recession. So, the Fed should take a more measured approach to stimulating the economy.

Mark Goodwin:

John, I'm going to direct the next two-part question to you. Are you finding valuations to be broadly at attractive levels or does this vary across various segments of the fixed income market? And where are you seeing the best opportunities to put new capital to work today in the coming weeks?

John Cassady:

Yes. I mean, certainly, credit spreads are at pretty frothy levels if you just want to look at them in a vacuum. But I do want to go back to and answer this question partially with kind of how you posed the question to Brian there. I think you do have to take into account circumstances about what's going on in the U.S. economy.

So, we agree with Brian that yeah, spreads are probably are pretty tight right now. But look, we think the Fed has abdicated their responsibility when you think about their mandate for price stability and full employment. The Fed is sitting here cutting rates when we are at full employment and we are experiencing 3% real GDP (Gross Domestic Product) growth in the U.S.

So, 3% real GDP growth is quite a bit above what most economists would describe as U.S. potential GDP. Economists would probably say potential GDP is two, two and a quarter percent. We've been clipping along at 3%, and this is quarters after all the fiscal stimulus or I should say after all the stimulus that we

received from COVID. Why are we doing this? Why are we able to clip along at 3%? It has to do with the deficits that you alluded to.

And so far, I've seen neither political party through the election cycle was willing to really address that. Now, it looks like the Trump administration is going to have a sweep and they're going to be able to do a lot of things that they want to do. And quite frankly, I just don't see the fiscal largesse really slowing at this point, and we'll see where that gets us.

But for right now, I just think it's going to carry on with stronger growth than probably many people expect. And you've got the Fed playing a role by continuing to cut rates. In fact, if you look at all the countries in the world that represent 80% of GDP growth globally, all of them are in a rate cutting cycle right now.

So, you've got this tailwind of monetary policy going on globally. And I should go back and say the only ones who aren't cutting are ironically Japan. They've had a secular stagnation for decades now. In Russia, and that's a completely different story. But the fact remains, you've got monetary stimulus going on. I think you're going to continue to have fiscal stimulus in the U.S., and I think that that's just going to bode well for even though maybe you won't get spread tightening per se in the sectors that we're looking at.

But I do think that you're going to clip the coupon, you're going to clip the carry. And once again, we're paying attention to that probability of default in the way the balance sheets look right now. And so, we think that you're still getting paid to be in a single B space and opportunistically in triple Cs. Then, the other place I would say where there's value would be is in preferred securities. That's another lever that we can pull on. These tend to be crossover credits, kind of straddling that line of triple B and double B.

And if you think about the deregulation that Trump and (the proposed) DOGE (Department of Government Efficiency) wants to bring into the business world with beginning in 2025, we think that deregulation, the biggest beneficiary of that is going to be the banking and finance industry, and we think that just bodes well for them to really increase their earnings. And then, if you think about what we think's going on, this is a mid-cycle reflationary boom that we're going through. We think the yield curve continues to steepen, and that definitely helps net interest margins of banks if you continue to get the steepening of the yield curve.

So, that, that kind of sums up where we think we're finding relative value. Really, the other place I'd say we go is CMBS (Commercial Mortgage-Backed Securities). People talk about office space and what's going on out there in the world. We can really dig down, do some analysis in CMBS. We do loan level detail. We look at the properties in every CMBS deal we own. And then, we look at the structure of the deal and how quickly the deal is de-levering.

So, we're able to find, we'll call it 2012 to 2014 vintage CMBS deals that are de-levering that are amortizing now as opposed to just waiting for a balloon payment to cause trouble. Those are the places where we find value in the market right now.

Mark Goodwin:

Thank you, John. Brian, you and your team are active investment managers with a focus on bottom-up analysis. How are you positioning the investment-grade portfolio of the North Square Core Plus Bond Fund currently?

Brian Allen:

Again, with the most recent overweight to the agency sector in particular, we had a fair amount of rise in volatility going into the election, which historically is the case followed by resolution almost regardless of who was the eventual winner or the outcome from the elections, but volatility then tends to trade off.

As I mentioned before, our focus in agencies is a fairly small portion of most performance benchmarks, but the agency market itself is so much larger, like eight or nine times the size of what appears in the popular benchmarks and callable securities in particular, even some negotiable certificates of deposit were trading at fairly attractive spreads. Certainly, against our universe of corporate securities.

And we thought, "Well, it's a safe play again to ride the wave of volatility, to take that negative convexity risk when we're being paid to do so." And then, following the election, of course, we trended much lower in volatility. The VIX (CBOE Volatility Index) now has a 13 handle on it. The MOVE Index (Merrill Lynch Option Volatility Estimate), which is the bond market equivalent of the VIX, is at the year-to-date lows, matching levels we saw back in April and May of this year.

The spreads have tightened and we began to work out those positions. We've always found that in this space in particular one thing to go out and find securities that look attractive at any point in time, but we will also scale back risk when we feel that frankly the risks outweigh the level of compensation we're receiving.

So, the portfolio right now is fairly streamlined in terms of where we're standing out relative to the benchmark. Still in the agency space, but more in the mortgage area and more finding relative value with specific securities in the mortgage space, discount coupons with higher turnover rates either due to borrower credit characteristics or geographic influences and more in the premium space where there's some barriers to refinancing.

So, we really found that the barbell approach in the mortgage space has worked well this year while some of the more current coupons over the three and a half to four, four and a half coupons have lagged a bit.

Mark Goodwin:

Thank you, Brian. John, Red Cedar looks at relative value across various asset classes. How is the non-investment grade component currently positioned?

John Cassady:

Yes. So, right now, we are sitting at about 16% or so of the portfolio is in below investment grade. Those traditional Michael Milken high yield bonds we're about call it 10%, 11% preferred securities. So, remember those are those crossover securities, maybe triple B, double B type levels.

The thing about preferred securities and corporate hybrids, I'll throw those into the mix there as well, is that there is, and it reminded me as Brian spoke about negative convexity, we are trying to manage against extension risk, right? There is... That is that negative convexity risk in those types of securities, but we're very adept at managing that risk.

So, we're looking for structures that have high back-end coupons, that sort of thing, that limit the extension risk in them. Then, finally, the other piece of that is the securitized piece of it with quite a bit of it coming in the CMBS world. I think all the things going on in commercial real estate, people, rightfully so, should be concerned about certain properties, office space, that sort of thing. But that's given us a little bit of a relative value play in the CMBS world.

But once again, there's a lot of bottom-up analysis that goes into that. But in the meantime, we're taking advantage of valuations that look cheaper relative to maybe some ABS (Asset-backed securities) or some non-agency mortgage-backed securities out there. The other piece that I would mention as well that we have in the portfolio, we do have a tail risk hedging strategy. We are not blind to the risks out there and as tail risk implies, it's something that just comes out, thinking of a Black Swan or something that, comes out of left field that you can't really predict.

So, therefore, even though volatility has remained really pretty level and not too out of control or anything, we are not blind to the fact that at any moment there could be something when the wall of worry, you've got a war going on in Ukraine, you've got unrest in the Mideast with a regime that just got overthrown and still you've got Israel and the Gaza Strip the war going on there.

So, we know that at any moment something could happen to throw everything out of whack. So, we do have a tail risk hedging strategy that would benefit the portfolio if volatility were to spike, and that we've used this in other products through the years and it's very effective. And you could say, "Well, maybe you should own 10- and 30-year Treasuries," because with the flight to quality when volatility spikes 10- and 30-year treasuries would rally and that would help your portfolio. But we look at 10- and 30-year treasuries right now as a very expensive hedge to have in your portfolio. So, that's why we've got a hedge that takes advantage of an uptick in equity volatility if and when equity volatility does spike.

Mark Goodwin:

That's a good segue to the next question for you both. As you think about key concerns or risks that you're monitoring going forward, are there any ones that jump out as more likely or concerning than others? The geopolitical ones you've just summarized, but I'm thinking tariffs or the application of tariffs across different industries either impact on US industries or any sovereigns. I know, John, you guys have had some sovereign exposure over time. But me starting with Brian and then back to you, John, any broad risks that are top of mind?

Brian Allen:

Yes, tariffs certainly be not only the types of tariffs put in place, but the pace at which they're implemented. That's certainly a cautionary tale on the inflationary front. Despite the lows, we saw in consumer prices middle of this year, the last several months, we've seen or especially core inflation coming in at three tenths of a percent per month and the annualized rate is still firmly above 3%.

We do think that improves, but the pace of improvement has slowed quite a bit and congruent with our thoughts that we'll not see a recession next year. We think just the demand side of the equation will keep inflation north of 2%. Of course, the Fed looks at the PCE (Personal Consumption Expenditures) as their favorite measure of inflation, but that's still running in the high twos.

So, I think one, the market has correctly changed their outlook for the Fed's likely moves in 2025. And I think Fed commentary again tomorrow will be instrumental in for the balance of this year and sort of framing what risk they see when the growth in inflation part of the equation oversees the heightened the military situation in the Middle East. And now, with Syria having finally undergone some change in leadership that's sort of tossed up in the air. Iran, Russia, the US, Israel, a number of opposing forces looking to dictate or control how new leadership assumes control in Syria.

And then, ongoing, we certainly haven't forgotten about Russia and the Ukraine. Some talk about the fact that President-elect Trump will push Zelensky to negotiate an end to the war. It seems to have been unlikely to occur in the past or interesting to see if any more effective this time around, if the threat of lack of supply and military hardware and weapon systems will sway that conversation or not.

But we have certainly enough on the international front. And then, as John mentioned earlier, most of the developed world is now cutting rates, so there's a pro-inflationary force, not so much for those countries in particular because they're certainly in the US is the exception to the rule these days with economic performance and financial market performance.

But the extent to which that influences inflation in the U.S. and to the extent to which it affects the inflows to the U.S. fixed income market, demand for treasuries, corporates, and mortgages. But also agree that if anything, with the fact that we're running full employment and still running deficits, which are likely to increase going forward, there is growing concern as there has been for a while, the growing concern that the credit quality of the U.S. is certainly suffering somewhat, and that I think has that coupled with residual inflationary concerns as the backend as probably the least attractive portion of the yield curve in the U.S.

Mark Goodwin:

Thank you, Brian. John, maybe pivoting close to your home for a minute. Some of the risks we're hearing about a year or so ago, commercial real estate, rise of private credit, but commercial real estate was really a focus area. Anything closer to home in terms of risks that cause you to stay awake at night?

John Cassady:

I would just reiterate maybe what was the Trump administration going to do? We've done some analysis and while we should be concerned about tariffs, I would argue this, that the Trump tariffs of 2018 and 2019 did not exactly derail the US economy. In fact, we had pretty decent economic growth even during that episode and everyone was screaming about inflation, inflation is going to spike as a result. And it was flat to down during that time period.

I think tariffs are an interesting sideshow. And look, I'm not trying to dismiss it, but I think you need to broaden out what you're looking at in terms of what'll happen with economic growth and inflation. In 2018 and 2019, the Chinese currency was devalued, so the currency move actually absorbed some of the tariffs that took place.

We did some analysis. Those tariffs amounted to $80 billion US dollars on what was then a $22 trillion economy. So, not exactly a huge part of the US economy. I think it calculated out to 0.35% of the US economy. That being said, we're about to go into round two of tariffs and we'll see. I think Trump tends to use them as negotiating ploys to get what he wants. I don't really believe that he's going to impose

tariffs on Canada and on Mexico, but maybe I'll be proved wrong. Maybe it's in the cards that there's an additional 10% tariff placed on Chinese goods.

But once again, that's not going to be an economy killer at all. I think what would concern me would be mass deportations. I know that's probably political football to talk about deporting people, but I think if you look at part of what has grown the U.S. economy is the growth in the workforce over the last three or four years under the Biden administration where you had probably two and half, three million immigrants come into this country per year during the Biden years, that most certainly had an effect on exceptional U.S. growth.

And so, if you take that away, mass deportations could cause the economy to slow dramatically, and that could be inflationary as well. So, that stagflationary scenario could be... It's not our base case, but something I keep an eye on. I think that just maybe to broaden out the discussion a little bit, I saw an interesting thing the other day.

It's like of the G7 nations, there's a G7 meeting in Europe earlier this summer, and there's a picture, a famous picture of them all, all the G7 world leaders. Really, there's only one left standing if you think about it, Biden is gone or will be gone. You've got Scholz from Germany. You've got Trudeau in Canada on the ropes. Macron, the French government has fallen. Really, the only, the last person standing of the G7 from a meeting earlier this summer is Giorgia Meloni from Italy.

So, just the idea that there's maybe unrest in government in Western democracies, that would be a cause for a concern and we'll see how that all plays out. So, these are things we keep our eyes on and it could upset the apple cart. And then, I'll just say, I think, finally, the fiscal situation in the U.S., as I've said earlier, I don't think that we're going to slow down our spending. I think it's going to keep going and going.

And I guess for right now, I think it was Jason Trennert at Strategas who stated this. He said, "For now, we remain bullish until the bill comes due." No telling when that bill can come due. The market, I guess, will tell the U.S. government when it can no longer spend that much, but that would certainly be the thing out there that could really cause problems down the road.

Mark Goodwin:

Thank you, John. Brian, a final question I'll direct you. How do you see this type of active Core Plus strategy being best positioned in a diversified portfolio of an individual investor?

Brian Allen:

Well, I think it runs the gamut, sort of crosses the line for offering an individual investor some measure of diversification versus what is an ever-growing allocation to equities, whether money's being added or just the appreciation in that market over the last few years and real yields in core fixed income are historically attractive, though the absolute level of yields is fair.

I think the addition of very risk-focused Core Plus or a plus strategy to the equation really does offer the chance to boost income. And when coupled with our fairly low volatility approach, what you've got in the end is even more attractive rates of current income and the true benefit of active management uncovering value in areas that a passive approach to Core Plus wouldn't find. And ultimately, a fairly consistent stream of income going forward.

Mark Goodwin:

Brian, John, thank you for joining me today. This has been a great discussion.

John Cassady:

Yeah, thanks a lot everyone.

Brian Allen:

Thank you.

Diane Merritt:

Thank you for tuning in to our North Square Active Insights Podcast. For more information on North Square Investments, our partners and investment solutions, please visit our website at www.northsquareinvest.com.

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[1]Bond ratings are grades given to bonds that indicate their credit quality as determined by private independent rating services such as Standard & Poor's, Moody's and Fitch. These firms evaluate a bond issuer's financial strength, or its ability to pay a bond's principal and interest in a timely fashion. Ratings are expressed as letters ranging from `AAA', which is the highest grade, to `D', which is the lowest grade. Investment-Grade refers to a bond considered investment grade if its credit rating is BBB- or higher. Below Investment-Grade refers to a security that is rated below BBB-.

Definitions of terms used in this podcast:

Basis points, otherwise known as "bps," are a unit of measure used in finance to describe the percentage change in the value or rate of a financial instrument. One basis point is equivalent to 0.01% (100 basis points = 1.0 percent).

Duration is defined as the average maturity of all bond payments, where each payment is weighted by its value. In fixed income investing, duration is an essential tool for risk management, as it measures the sensitivity of an asset price to movements in yields.

The **yield curve** shows the interest rates that buyers of government debt require in order to be willing to lend their money over various periods of time — whether overnight, for one month, 10 years or even longer. An **inverted yield curve** is considered to be unusual; it reflects bond investors' expectations for a decline in longer-term interest rates, typically associated with recessions.

A collateralized loan obligation, or "**CLO**" is a debt security that's made up of a group of loans, or a portfolio, that are repackaged and sold to investors.

The **Bloomberg US Aggregate Bond Index** is a broad base, market capitalization-weighted bond market index representing intermediate term investment grade bonds traded in the United States. One cannot invest directly in an index.

A **credit spread** is the difference in yield between two debt securities of the same maturity but different credit quality.

A bond's **coupon** is the interest payment made to a bondholder from the time the bond is issued until it matures. Coupons are expressed as s a percentage of the face value and are paid from the issue date until maturity.

In the context of bonds, "**carry**" refers to the net income an investor receives from holding a bond, and is essentially the difference between the coupon payment (the interest received by the investor) and the cost of borrowing the money to buy the bond.

Net interest margin is a financial metric that measures the difference between the interest a financial institution earns and the interest it pays out.

CMBS stands for Commercial Mortgage-Backed Securities, which are a type of fixed-income investment that's backed by mortgages on commercial properties. CMBS loans are a common way to finance commercial real estate projects in the United States.

Negative convexity risk is the risk that a bond's price will decrease as its yield increases.

The **CBOE Volatility Index (VIX)**, also known as the Fear Index, measures expected market volatility using a portfolio of options on the S&P 500.

The **MOVE Index**, otherwise known as the "VIX of bonds," helps investors track volatility across U.S. Treasuries. Sometimes, it can signal future action in equities.

Asset-backed securities (ABS) are a type of credit instrument, or bond, that are used in fixed income investments. ABS are bonds that are secured by a pool of assets, such as loans, that produce regular interest payments.

PCE stands for Personal Consumption Expenditures, which is a measure of the amount of money spent by U.S. residents on goods and services. It is a key indicator of consumer spending in the U.S. economy.

Before investing you should carefully consider the Fund's investment objectives, risks, charges and expenses. This and other information is in the prospectus, a copy of which may be obtained by calling 855-551-5521. Please read the prospectus carefully before you invest.

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