Core Bond Wrap

TAXABLE FIXED INCOME STRATEGY

SEIX INVESTMENT ADVISORS LLC®

Spreads Alert: Not Much in the Way of Tightening or Widening

The third quarter was very muted from an interest rate and credit perspective, with short-term interest rates (two-year Treasuries) up a mere three basis points (bps) and longer-term interest rates (30-year) down four bps. The five-year part of the Treasury yield curve was the underperformer and that was up only eight bps—all of which reflected the bond market's range-bound mindset and heightened anticipation of what the Federal Reserve (Fed) might do next. Intra-quarter, the skew was towards lower rates, as the 10-year Treasury yield traded as low as 1.12% before retracing and closing the quarter at 1.49%. **Spread changes were muted over the quarter,** hence both total returns and excess returns across most of the investment grade spread sectors were also muted, and particularly so in the context of the returns market participants have enjoyed since the mid-2020 lockdown economy.

Volatility also returned by the end of September, with a spike in energy prices and many other commodities feeding the narrative of an economy still challenged by supply chain bottlenecks, component shortages, and exceptionally long delivery times. The Chicago Board Options Exchange's CBOE Volatility Index (VIX) was back up above 25 in mid-September before settling back down around 23 at quarter end. Recall, the VIX had settled at 15.8 by the end of Q2. It nearly breached 15 in early July, a level not seen since before the pandemic.

Money supply growth peaked in February and has been slowing ever since. M2, for example, closely watched as an indicator of money supply and future inflation, was up 13.2% in August on a year-over-year basis, compared to a 27.1% rate back in February. Before the COVID lockdown, M2 was growing at a 6.8% year-over-year rate.

If the Bloomberg consensus is right, **GDP for all of 2021 is poised to grow by 5.9%.** We believe that estimate is too high, but even if it proves accurate, it will have to be deemed a major disappointment reflecting how weak the underlying organic economy is given the extreme magnitude of fiscal and monetary intervention. Just last spring, expectations were building for growth to potentially top 7%, but since Q2, the direction of economic surprises has been mostly to the downside.

After all, Congress delivered significant fiscal support this year—$2.8 trillion—and the Fed's balance sheet has expanded by an additional $1.1 trillion via direct asset purchases. **The combination of both fiscal and monetary support rounds to approximately 17% of GDP,** all while the Fed has remained committed to a zero-interest rate policy environment, and that's in addition to an elevated savings rate most considered a tailwind coming into 2021. Now the savings rate is down to 9.4% versus 14% at the end of 2020. The aggressive stimulus of 2020 saw the savings rate average a little over 16% for the year, more than double the 7.6% average seen in 2019 before the pandemic and economic lockdown.

TOP 10 HOLDINGS AS OF 9/30/2021

	% of Portfolio
The Boeing Co.	1.52
JP Morgan Chase & Co.	1.08
Barrick NA Finance LLC	1.07
JP Morgan Chase & Co.	1.00
Pioneer Natural Resources Co.	0.99
Con Edison Co. of NT Inc.	0.99
Citigroup Inc.	0.97
State Street Corp.	0.94
Bank of America Corp.	0.90
The Southern Co.	0.85

PORTFOLIO MANAGERS

Jim Keegan
CIO & Chairman
Industry experience since 1982
Joined Seix in 2008

Perry Troisi
Head of Investment Grade, Senior Portfolio Manager
Industry experience since 1986
Joined Seix in 1999

Michael Rieger
Senior Portfolio Manager
Industry experience since 1986
Joined Seix in 2007

Carlos Catoya
Portfolio Manager
Head of IG Credit Research
Industry experience since 1987
Joined Seix in 2001

Jon Yozzo
Portfolio Manager
Head of IG Corp Bond Trading
Industry experience since 1991
Joined Seix in 2000

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An inventory rebuild, which was another tailwind many expected for 2021, has yet to manifest itself. **Supply chain interruptions and ongoing bottlenecks remain a considerable challenge,** but an inevitable inventory cycle remains a potential tailwind for the economy over the next few quarters, especially considering the Delta variant did not incite another broad government lockdown.

Against that backdrop, **the Fed seems prepared to announce the tapering of asset purchases in November,** allowing for a gradual reduction until ending asset purchases by the middle of 2022. The commencement of the taper is in line with the market's consensus expectation, but the pace, revealed at the September Federal Open Market Committee (FOMC) press conference, is somewhat faster than most expected and faster than the Fed's last asset purchase taper back in 2014.

Suffice it to say, it will be interesting to see if the Fed fully tapers, let alone raises rates by the end of 2022. Since the global financial crisis of 2008, **the Fed has become the guardian of the stock market** and its mantra is "Do No Harm" at the expense of all else. So, if the stock market suffers even a 15% drawdown, the Fed will likely turn dovish and offer support to the market once again.

Market Performance

The third quarter was replete with muted returns, both in total and excess return terms, with little in the way of rate or spread moves. Interestingly, real rates were little changed as well, such that we had no big move in inflation break-evens over the quarter—quite the juxtaposition with a period that was rife with inflation jitters. The conundrum of lower Treasury rates over the second quarter also carried into the summer, further frustrating a market still inclined to only anticipate higher rates, such that two-, five-, and 10-year Treasuries all made their lows for the quarter in early August.

Also noteworthy regarding the rates market was pricing in the options market. By the middle of July, for the first time in over a year, buying insurance against a decline in yields cost more than getting insurance on rates rising. It took a while, but **the market finally became more worried about further declines in yields.** Beyond that, Treasury yields spent most of the quarter in a tight range with 10-year Treasuries largely trading between 1.20% and 1.35%, and the break of the upper band did not occur until the week of September 23, when the inflation narrative awakened as commodities, particularly the oil complex, traded higher. This modestly stirred up inflation expectations from what had been mostly a slumber that saw 10-year break-evens exhibit little directionality within a 2.25 to 2.40 range. Recall, 10-year break-evens peaked at nearly 2.60 back in May.

The narrow trading ranges over the quarter generated total returns that can be measured in basis points. The Bloomberg U.S. Aggregate Bond Index total return was up only five bps, the corporate sector total return was zero, while the residential mortgage-backed securities (RMBS) sector was up 10 bps in total return terms, to name just a few.

The investment grade credit sector's flat total return included a rare -0.15% of excess return, the first quarterly underperformance since Q1 2020. Long corporates drove the underperformance with -0.50% of excess return while intermediates fared better with +0.06% of excess. Differentiation by rating was very muted. BBBs were the outperformer with +0.11% total return and -0.04% in excess return, while A-rated corporates recorded -0.12% total return and -0.27% in excess return. Contrast that with high yield credit, where the higher quality BBs led the way with +1.09% total return and +1.04 in excess return, compared to CCCs +0.75% total return and +0.75% in excess return.

In the securitized sector, there was pretty much nothing significant to note. RMBS generated +0.10% in total return terms and +0.03% of excess return; commercial mortgage-backed securities had -0.03% in total return terms and -0.03% of excess return and asset-backed securities had +0.05% in total return and +0.03% of excess return.

Strategy Performance

As previously stated in this letter, fixed income returns were very muted for the quarter. Consequently, the Seix Core Bond SMA Strategy (Strategy) posted a 0.01% (gross) return, slightly underperforming the Bloomberg Government/Credit Index (Index) return of 0.04%. Over the trailing 3-year period, the Strategy returned 6.51% (gross) versus the Index return of 5.94%.

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Inflation

Is inflation transitory, or are recent spikes in key prices going to have a longer-term effect? The year began with a Core Personal Consumption Expenditure Price Index (core PCE) deflator of around 1.5%; by June it had risen to 3.6%, which is where it remained through August. Even if we have a slowdown of monthly inflation from September through December, call it, say 0.2% monthly, which is about half the rate seen so far this year, the core PCE deflator will end 2021 at about 4%, higher than where it stands now. Yet, **the Fed is telling us that the core PCE deflator is going to come all the way back down to almost 2% by the end of next year.** That's a rapid deceleration amidst a very challenging macroeconomic backdrop. We have supply chain issues that no one anticipated we'd still be talking about in October. Bottlenecks, chip shortages, and shipping delays have all persisted, and relief is still several quarters away. Shelter/rent costs, relatively large parts of core inflation, could drive the cyclical inflation impulse even higher in 2022.

This shelter/rent backdrop will play a critical role in determining where inflation goes in 2022. The key determinants will center on the dueling impact of core service sector inflation moving higher as the reopening continues versus whatever happens in the core commodity sector, where there was a much larger uptick in 2021 than anyone anticipated. Cyclical inflation forecasts for 2022 require tremendous humility, as the challenges of the economic reopening have introduced extraordinary circumstances the likes of which have not been seen for a long time, if ever.

Whatever happens with inflation in the short term, **the Fed is likely to start tapering asset purchases in November with the objective to finish by the middle of 2022.** However, the timing of rate hikes appears to be a coin toss. Nine members of the FOMC see no rate hike in 2022; nine see at least one; and three of those nine see two rate hikes in 2022. Looking beyond 2022, the dot plots currently imply three additional rate hikes in both 2023 and 2024, bringing the target rate to 1.75% by the end of 2024. Regardless of the questionable predictive value of dot plot expectations, that's a significant shift considering there were no rate hikes forecast at the beginning of the year through 2023. In any case, **keep your eye on the FOMC, where significant turnover, beyond the normal annual voter rotation, is likely next year.** Regional Fed President turnover in addition to potentially three or four new appointees (term expirations as well as one vacancy) at the Board of Governors represents a clear opportunity for the Biden Administration to put its mark on the central bank.

Other Themes to Watch

Consumer Sentiment

There have been some shifts in consumer sentiment, and one of the most interesting ones relates to purchasing plans for durables and housing. According to the University of Michigan's monthly Survey of Consumers, **those planning on, or seeing it as a good time to purchase a home, are at levels we haven't seen since the early 1980s** when mortgage rates were about 15%, and we have mortgage rates today at about 3%. The reason is that housing prices have advanced to record highs, which has really pushed a lot of people out of the market, thus reducing sentiment there in a dramatic way. Less dramatic, but still significant, is dampened enthusiasm for automobile and appliance purchases plans.

Higher Energy Prices

Higher oil prices generally serve as a tax on the consumer, and over a prolonged period, they can lead to economic slowdowns and potentially a recession, so concern about higher energy prices is more than just an inflation story. Cyclically, though, in the short-term, higher oil prices are going to fuel higher headline inflation, which the market views as an inflation outcome the Fed is more willing to look through, given its focus on the core inflation components. That ultimately means less discretionary income to spend in other places and worse economic growth over the intermediate/long term.

A China Slowdown

Between the tech sector crackdown and the over-leveraged Evergrande drama that is fueling fears of a property meltdown, **the world's second-largest economy has a great wall of worry of its own,** and we must pay attention to ongoing policy responses.

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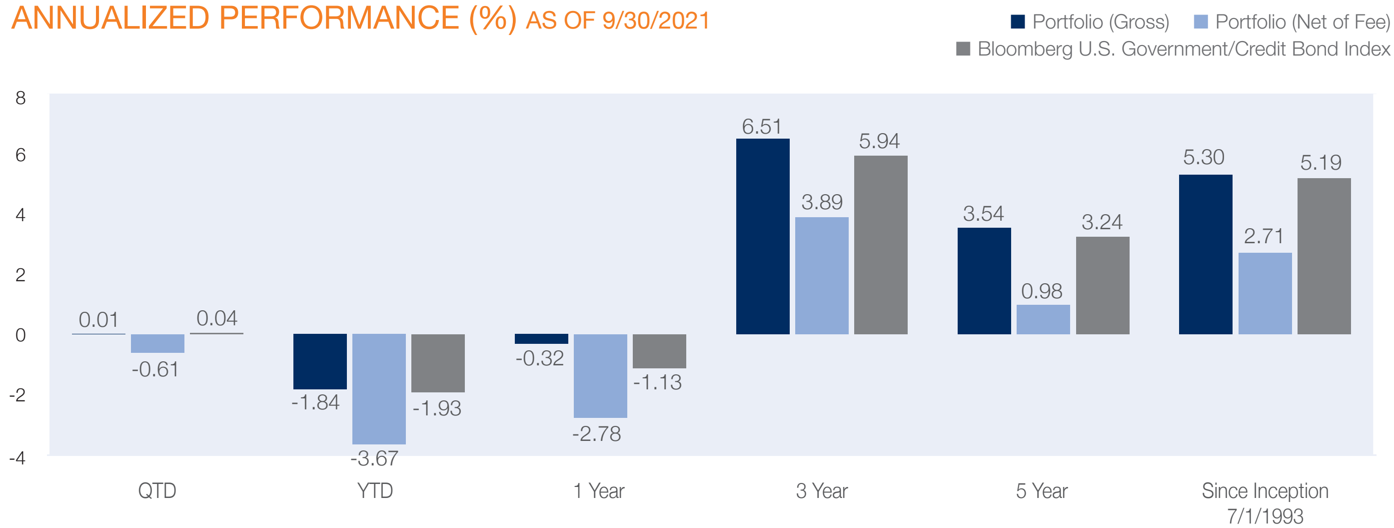
Beltway Blues

While Congress may have avoided a government shutdown until December 3, in addition to kicking the can on the debt ceiling until December as well, the potential for a crisis of our own making sometime before the end of the year remains. Then there's all the wrangling over infrastructure, be it the bipartisan component or the partisan reconciliation bill, all of which are mired in negotiation and very difficult to handicap.

As always, please let us know if you have any questions about the market or your portfolio. We thank you for your support of Seix Investment Advisors LLC.

ANNUALIZED PERFORMANCE (%) AS OF 9/30/2021



Net returns are calculated by subtracting the highest applicable wrap fee (2.50% on an annual basis, or 0.21% monthly) on a monthly basis from the gross composite monthly return.

Past performance is not indicative of future results. The information shown above is supplemental information only and complements the fully compliant presentations. Periods greater than one year are annualized.

Benchmark: Bloomberg US Government/Credit Bond Index includes treasuries and agencies that represent the government portion of the index, and includes publically issued U.S. corporate and foreign debentures and secured notes that meet specified maturity, liquidity and quality requirements. The index is unmanaged, its returns do not reflect any fees, expenses, or sales charges, and is not available for direct investment.

For information, contact:
Seix Investment Advisors LLC | 201.391.0300 | www.seixadvisors.com

Core Bond Wrap Composite Data

	Total Firm	Composite Assets			Annual Performance and Standard Deviation					
Year End	Assets ($ mil)	US$ ($ mil)	Percentage of Wrap-Fee Portfolios	# of Wrap Sponsors	Net Composite Return	Pure Gross Composite Return	Composite 3-Year Std. Dev.	Bloomberg Barclays US Govt/ Credit Bond Index	Index 3-Year Std. Dev.	Composite Dispersion
2020	17,721	190	100	5 or fewer	8.94%	11.68%	4.16%	8.93%	4.04%	N/A
2019	18,034	191	100	5 or fewer	5.67%	8.33%	3.40%	9.71%	3.26%	N/A
2018	21,160	185	100	5 or fewer	-2.81%	-0.34%	3.19%	-0.42%	3.16%	N/A
2017	24,843	224	100	5 or fewer	1.11%	3.67%	3.26%	4.00%	3.28%	N/A
2016	27,631	208	100	5 or fewer	1.05%	3.61%	3.44%	3.05%	3.46%	N/A
2015	25,698	205	100	5 or fewer	-2.91%	-0.45%	3.16%	0.15%	3.25%	N/A
2014	30,989	186	100	5 or fewer	3.09%	5.69%	2.92%	6.01%	2.95%	N/A
2013	26,600	200	100	5 or fewer	-5.50%	-3.10%	3.38%	-2.35%	3.17%	N/A
2012	26,141	247	100	5 or fewer	0.78%	3.33%	3.30%	4.82%	2.96%	N/A
2011	26,147	218	100	6	6.79%	9.48%	3.52%	8.74%	3.42%	0.2%

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

Seix Investment Advisors LLC claims compliance with the Global investment Performance Standards (GIPS®) and has prepared and presented this report in compliance with the GIPS standards. Seix Investment Advisors LLC has been independently verified for the periods January 1, 1993 through December 31, 2020. The verification reports are available upon request. A firm that claims compliance with the GIPS standards must establish policies and procedure 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. Verification does not provide assurance on the accuracy of any specific performance report.

Seix Investment Advisors LLC is an SEC-registered investment adviser, and is a wholly owned subsidiary of Virtus Investment Partners, Inc. ("Virtus"). For the period prior to May 29, 2004, the firm was named as Seix Investment Advisors, Inc. ("SIA") before SIA was acquired by SunTrust Banks Inc., and its name changed to Seix Advisors. SIA was formerly registered as an investment adviser with the SEC. For the period between May 29, 2004 and March 31, 2008, the Portfolio Management Team was a part of Seix Advisors, the Fixed Income division of Trusco Capital Management, Inc. ("Trusco") and the predecessor of Seix Investment Advisors LLC. Effective as of March 31, 2008, Seix Advisors began operating as a separate legal entity, named Seix Investment Advisors LLC ("Seix"), and Trusco was renamed as RidgeWorth Capital Management, Inc. Effective as of May 23, 2014, RidgeWorth Capital Management, Inc. became RidgeWorth Capital Management LLC, and Seix merged with StableRiver Capital Management LLC, a wholly owned subsidiary of RidgeWorth Capital Management LLC. Effective June 1, 2017, RidgeWorth Capital Management LLC was acquired by Virtus Investment Partners, Inc. ("Virtus"). The investment management team has managed the composite since its inception, and the investment process has not changed. The historical performance has been linked to performance earned at Seix Investment Advisors LLC.

The Core Bond Wrap strategy seeks total return (comprised of capital appreciation and income) that exceeds the total return of the broad U.S. dollar denominated, investment grade market of government and corporate bonds over a full market cycle. Core Bond Wrap accounts are invested in various types of income-producing debt securities including government and agency obligations, corporate obligations, and mortgage- and asset-backed securities. Accounts may invest in debt obligations of U.S. and non-U.S. issuers. These debt obligations will be chosen from the broad universe of available fixed income securities rated investment grade, or unrated securities that Seix believes are of comparable quality.

For comparison purposes, the composite is measured against the Bloomberg US Government/Credit Bond Index. The Bloomberg US Government/Credit Bond Index is an unmanaged index consisting of Treasuries (i.e., public obligations of the U.S. Treasury that have remaining maturities of more than one year), agencies (i.e., publicly issued debt of U.S. Government agencies, quasi-federal corporations, and corporate or foreign debt guaranteed by the U.S. Government), and publicly issued U.S. corporate and foreign debentures and secured notes that meet specified maturity, liquidity, and quality requirements. Securities must be rated investment-grade (Baa3/BBB- or higher). Index returns do not reflect the deduction of any fees.

The minimum account size for inclusion in the composite is $500,000.

Prior to September 30, 2017, the Seix Core Bond Wrap Composite was named the Seix Core Bond SMA Composite. The Seix Core Bond Wrap Composite was created October 1, 1998, and has a performance inception date of July 1, 1993.

Results are based on fully discretionary accounts under management, including those accounts no longer with the firm. The U.S. dollar is the currency used to express performance. Returns include the reinvestment of all income. Past performance is not indicative of future results.

Pure Gross returns are presented as supplemental information, do not reflect the deduction of any trading costs, fees or expenses and are presented for comparison purposes only. Net returns are calculated by subtracting on a monthly basis the highest assumed wrap fee (2.50% annually or 0.21% per month) from the gross composite monthly return. The assumed wrap fee includes all charges for portfolio management, trading costs, custody and other administrative fees.

Actual wrap fees vary by Program Sponsor. Please refer to the Program Sponsor's ADV 2A for a full disclosure of the fee schedule for wrap fees. Returns realized by clients will be reduced by the actual wrap fee rates and rates incurred by clients will vary.

The three-year annualized standard deviation measures the variability of the composite gross returns and the benchmark returns over the preceding 36-month period.

The dispersion of annual returns is measured by the asset-weighted standard deviation of portfolio gross returns represented within the composite for the full year. No dispersion is reported for periods with five or fewer portfolios (shown as N/A).

Policies for valuing investments, calculating performance, and preparing GIPS Reports are available upon request. A list of all composite investment strategies offered by the firm, with a description of each strategy, is available upon request. The type of portfolios in which each strategy is available (segregated account, limited distribution pooled fund, or broad distribution pooled fund) is indicated in the description of each strategy.

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IMPORTANT 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. **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 non-repayment of underlying collateral, including losses to the portfolio. **Foreign Investing:** Investing in foreign securities subjects the fund to additional risks such as increased volatility, currency fluctuations, less liquidity, and political, regulatory, 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.

DEFINITIONS & DISCLOSURES

A basis point (bp) is equal to 0.01%.

Bonds offer a relatively stable level of income, although bond prices will fluctuate providing the potential for principal gain or loss. Intermediate-term, higher quality bonds generally offer less risk than longer-term bonds and a lower rate of return. Generally, a Portfolio's fixed income securities will decrease in value if interest rates rise and vice versa. Although a Portfolio's yield may be higher than that of fixed income strategies that purchase higher rated securities, the potentially higher yield is a function of the greater risk of that stategy's underlying securities.

This information and general market-related projections are based on information available at the time, are subject to change without notice, are for informational purposes only, are not intended as individual or specific advice, may not represent the opinions of the entire firm, and may not be relied upon for individual investing purposes. Information provided is general and educational in nature, provided as general guidance on the subject covered, and is not intended to be authoritative. All information contained herein is believed to be correct, but accuracy cannot be guaranteed. This information may coincide or conflict with activities of the portfolio managers. It is not intended to be, and should not be construed as investment, legal, estate planning, or tax advice. Seix Investment Advisors does not provide legal, estate planning or tax advice. Investors are advised to consult with their investment professional about their specific financial needs and goals before making any investment decisions.

HOLDINGS DISCLOSURE The information provided in this report should not be considered a recommendation to purchase or sell any particular security. There is no assurance that any securities discussed herein will remain in an account's portfolio at the time you receive this report or that securities sold have not been repurchased. The securities discussed do not represent an account's entire portfolio and in the aggregate may represent only a small percentage of an account's portfolio holdings. It should not be assumed that any of the securities transactions or holdings discussed were or will prove to be profitable, or that the investment recommendations or decisions we make in the future will be profitable or will equal the investment performance of the securities discussed herein.